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CIS

COTTON RESEARCH AND PROMOTION ACT OF 1987

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION
ON

H.R. 1622

TO PROVIDE THAT ALL UNITED STATES COTTON PRODUCERS PARTICIPATE IN DEFRAYING COSTS OF THEIR RESEARCH AND PROMOTION PROGRAM AND THAT IMPORTED COTTON AND PRODUCTS BE SUBJECT TO THE PROGRAM ASSESSMENTS, AND FOR OTHER PURPOSES

NOVEMBER 17, 1987

Serial 100–48

Printed for the use of the Committee on Ways and Means

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CONTENTS

	Page
Press release of Tuesday, November 10, 1987, anouncing the hearing	2
H.R. 1622, text	4
H. Rept. 100–339, Part 1	10

WITNESSES

U.S. Department of the Treasury, William Barreda, Director, International Trade Policy, Office of the Assistant Secretary for International Affairs	45
U.S. Department of Agriculture, Jesse Moore, Director, Cotton Division, Agricultural Marketing Service; and Geron Rathell, Specialist, Tobacco, Cotton and Seeds Division, Foreign Agricultural Service	45

Agriculture, Committee on, Subcommittee on Cotton, Rice, and Sugar, Hon. Jerry Huckaby, a Representative in Congress from the State of Louisiana	28
American Agriculture Movement, Inc., Tommy B. Willis	89
American Association of Exporters and Importers, Textile and Apparel Group, Frederick M. Joseph	90
Burnett, Phillip C., Cotton Board	71
Cline, Lloyd E., National Cotton Council of America	60
Cotton Board, James B. Hansen and Phillip C. Burnett	71
Hansen, James B., Cotton Board	71
Huckaby, Hon. Jerry, a Representative in Congress from the State of Louisiana, and Chairman, Subcommittee on Cotton, Rice, and Sugar, Committee on Agriculture	28
J.C. Penney Co., Inc., Frederick M. Joseph	90
Joseph, Frederick, M., American Association of Exporters and Importers, Textile and Apparel Group, and J.C. Penney Co., Inc.	90
National Cotton Council of America, Lloyd E. Cline and Fred Starrh	60
National Farmers Union, Joe Rankin	77
Rankin, Joe, National Farmers Union, and Texas Farmers Union	77
Starrh, Fred, National Cotton Council of America	60
Tennessee Agriculture Movement, Tommy B. Willis	89
Texas Farmers Union, Joe Rankin	77
Willis, Tommy B., American Agriculture Movement, and Tennessee Agriculture Movement	89

SUBMISSIONS FOR THE RECORD

U.S. Department of Commerce, Robert H. Brumley, Deputy General Counsel, letter	101
U.S. Trade Representative, Hon. Clayton Yeutter, letter	44

American Farm Bureau Federation, John C. Datt, statement	103
Coelho, Hon. Tony, a Representative in Congress from the State of California, letter	105
Combest, Hon. Larry, a Representative in Congress from the State of Texas, letter	106
Cotton Warehouse Association of America, W.C. Griggs, Jr., letter	107
Emerson, Hon. Bill, a Representative in Congress from the State of Missouri, statement	108
Flippo, Hon. Ronnie G., a Representative in Congress from the State of Alabama, statement	109

Page

Plains Cotton Growers Inc., Donald A. Johnson, letter 111
Texas Corn Growers Association, Carl King, telegram 112
Thomas, Hon. William M., a Representative in Congress from the State of California, statement 113

COTTON RESEARCH AND PROMOTION ACT OF 1987

TUESDAY, NOVEMBER 17, 1987

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The committee met, pursuant to notice, at 11 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons presiding.

[The press release announcing the hearing, a copy of the bill, H.R. 1622, and the report of the House Agriculture Committee accompanying the bill, follow:]

FOR IMMEDIATE RELEASE
TUESDAY, NOVEMBER 10, 1987

PRESS RELEASE #20
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3625

THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON H.R. 1622, THE COTTON RESEARCH AND PROMOTION ACT OF 1987

The Honorable Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Committee on Ways and Means will hold a public hearing on H.R. 1622, the Cotton Research and Promotion Program Act of 1987. H.R. 1622 was favorably reported by the Committee on Agriculture on October 5, 1987, and has been sequentially referred to the Committee on Ways and Means for the period ending December 4, 1987. The purpose of this hearing will be to assist the Committee on Ways and Means in its deliberations on the bill.

Testimony will be received from invited witnesses only. The hearing will be held on Tuesday, November 17, 1987, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 11:00 a.m.

H.R. 1622 would amend the Cotton Research and Promotion Act (7 U.S.C. 2101-2118) to authorize a mandatory fee to be imposed on domestically produced upland cotton, imported upland cotton, and all imported products containing processed cotton. Current law provides for collection of assessments only on domestically produced upland cotton, and for refunds of such assessments if domestic producers do not want to participate in the promotion program.

In addition to the provisions of H.R. 1622, as reported by the Committee on Agriculture, invited witnesses will be asked to comment on an alternative proposal to impose an excise tax of an equivalent amount on all domestically produced and imported cotton, and a derivative tax (of an equivalent amount) on imported products containing cotton. The proceeds of the cotton tax would be dedicated to the authorized research and promotion activities of the Cotton Board.

In view of the limited time available to hear witnesses and to act on H.R. 1622, the Committee will be inviting witnesses who are known to have a position on the bill. Any other persons or organizations who wish to submit written statements to the Committee are encouraged to do so.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

For those who wish to file written comments for the printed record of the hearing, six (6) copies are required and must be submitted by the close of business on Friday, November 20, 1987, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. An additional supply of statements may be furnished for distribution to the press and public if supplied to the Committee office, 1102 Longworth House Office Building, before the hearing begins.

SEE FORMATTING REQUIREMENTS BELOW:

COMMITTEE ON WAYS AND MEANS FORMATTING REQUIREMENTS FOR PRINTING OF HEARING STATEMENTS, WRITTEN COMMENTS AND EXHIBITS

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

I

100TH CONGRESS
1ST SESSION

H. R. 1622

To provide that all United States cotton producers participate in defraying costs of their research and promotion program and that imported cotton and products be subject to the program assessments, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 16, 1987

Mr. HUCKABY (for himself, Mr. COELHO, Mr. DE LA GARZA, Mr. DERRICK, Mr. EMERSON, Mr. ESPY, Mr. FLIPPO, Mr. LOTT, Mr. STANGELAND, Mr. TALLON, and Mr. THOMAS of California) introduced the following bill; which was referred to the Committee on Agriculture

---

A BILL

To provide that all United States cotton producers participate in defraying costs of their research and promotion program and that imported cotton and products be subject to the program assessments, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Cotton Research and Promotion Program Act of 1987".

SEC. 2. Section 2 of the Cotton Research and Promotion Act (7 U.S.C. 2101) is amended by—

(1) in the fourth sentence of the first paragraph, inserting "and imported into the United States" after "United States";

(2) striking out the sixth sentence of the first paragraph; and

(3) in the third paragraph—

(A) striking out "harvested" and inserting "marketed"; and

(B) inserting "and cotton imported into the United States" after "United States".

SEC. 3. (a) Section 7 of the Cotton Research and Promotion Act (7 U.S.C. 2106) is amended by—

(1) striking out "producer" in subsection (a)(2);

(2) in the first sentence of subsection (b)—

(A) inserting "(1)" after "shall be composed of"; and

(B) striking out the colon and all that follows down through the end of the sentence and inserting in lieu thereof the following: ", and (2) an appropriate number of representatives, as determined by the Secretary, of persons who import cotton into the United States. Each cotton-producing State shall be entitled to at least one representative on the Cotton Board."; and

(3) in the first sentence of subsection (e), inserting ", and handlers who are importers shall pay to the Cotton Board on imported cotton" before ", an assessment".

(b) Notwithstanding any provision of the Cotton Research and Promotion Act in effect prior to the date of enactment of this Act, or any rule or procedure issued thereunder, the Secretary of Agriculture shall issue a proposed amendment to the order in effect under such Act on the date of enactment of this Act, in accordance with the procedure prescribed in such Act, that contains the following provisions:

(1) Procedures under which an appropriate number of persons who import cotton shall serve on the Cotton Board.

(2) A provision subjecting cotton imported into the United States to the assessments provided for in section 7(e) of the Cotton Research and Promotion Act, with the quantity and value of such cotton to be established in accordance with regulations issued by the Secretary.

Within thirty days after enactment of this subsection, the Secretary shall publish the proposed amendment to the order. Such publication shall give due notice and opportunity for interested persons to comment on the proposed amendment. After notice and opportunity for comment are so provided,

the Secretary shall issue the proposed amendment to the order, which shall become effective if approved in a referendum, as provided for in section 8(b) of the Cotton Research and Promotion Act.

SEC. 4. Section 8 of the Cotton Research and Promotion Act (7 U.S.C. 2107) is amended by inserting "(a)" after "SEC. 8." and by adding at the end thereof a new subsection (b) as follows:

(b) Notwithstanding the foregoing provisions of this section, the Secretary shall, within thirty days after issuance of the proposed amendment to the order under section 3(b) of the Cotton Research and Promotion Program Act of 1987, conduct a referendum among persons who have been producers during a representative period, as determined by the Secretary, for the purpose of ascertaining whether they approve or disapprove the proposed amendment to the order. The results of the referendum shall be announced by the Secretary within thirty days after it is conducted and, if approved by not less than a majority of the persons voting in the referendum, the proposed amendment to the order shall become effective on the date of such announcement. Neither the proposed amendment to the order nor the disapproval in the referendum of such proposed amendment shall operate to affect

collection or payment of assessments under the order by producers and handlers of cotton for producers.".

SEC. 5. Section 11 of the Cotton Research and Promotion Act (7 U.S.C. 2110) is amended by—

(1) designating the text thereof as subsection (a);

(2) striking out "Notwithstanding any other provision of this Act, any" and inserting in lieu thereof "Except as provided in subsection (b), any"; and

(3) adding at the end thereof a new subsection (b), as follows:

"(b) Beginning on the date of enactment of the Cotton Research and Promotion Program Act of 1987, refunds of assessments collected under this Act shall be made only as authorized by the provisions of this subsection:

"(1) Prior to the date on which the results of the referendum conducted under section 8(b) are announced by the Secretary, any person shall have the right to demand and receive from the Cotton Board a refund of an amount collected under section 7 if such person is responsible for paying such amount and does not support the program established under this Act. Such demand shall be made in accordance with regulations, on a form, and within a time period prescribed by the Cotton Board and approved by the Secretary, but in no event less than ninety days, and on proof satisfactory

to the Board that such person paid the amount for which refund is sought. Any such refund shall be made within sixty days after demand therefor.

"(2) Effective beginning with the date on which the Secretary announces the results of the referendum conducted under section 8(b) on the proposed amendment to the order, the Cotton Board's authority to accept and process applications for refunds under this section shall terminate.".

SEC. 6. Section 17 of the Cotton Research and Promotion Act (7 U.S.C. 2116) is amended by—

(1) in subsection (c), inserting "(1)" after "means" and adding after "seed" the following: "and (2) upland cotton produced in foreign countries and imported into the United States, and products containing processed cotton that were produced in foreign countries and imported into the United States"; and

(2) in subsection (d), inserting "or who imports cotton into the United States" after "cottonseed".

100TH CONGRESS
1st Session
HOUSE OF REPRESENTATIVES
REPT. 100-339
Part 1

COTTON RESEARCH AND PROMOTION PROGRAM ACT OF 1987

OCTOBER 5, 1987.—Ordered to be printed

Mr. DE LA GARZA, from the Committee on Agriculture, submitted the following

REPORT

[To accompany H.R. 1622]

[Including the Congressional Budget Office cost estimate]

The Committee on Agriculture, to whom was referred the bill (H.R. 1622) to provide that all United States cotton producers participate in defraying costs of their research and promotion program and that imported cotton and products be subject to the program assessments, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike all after the enacting clause and insert in lieu thereof the following:

That this Act may be cited as the "Cotton Research and Promotion Program Act of 1987".

SEC. 2. Section 2 of the Cotton Research and Promotion Act (7 U.S.C. 2101) is amended by—

(1) in the fourth sentence of the first paragraph, inserting "and imported into the United States" after "United States";

(2) striking out the sixth sentence of the first paragraph; and

(3) in the third paragraph—

(A) striking out "harvested" and inserting "marketed"; and

(B) inserting "and cotton imported into the United States" after "the United States".

SEC. 3. (a) Section 7 of the Cotton Research and Promotion Act (7 U.S.C. 2106) is amended by—

(1) striking out "producer" in subsection (a)(2);

(2) in the first sentence of subsection (b)—

(A) inserting "(1)" after "shall be composed of"; and

(B) striking out the colon and all that follows through the end of the sentence and inserting in lieu thereof the following: "; and (2) an appropriate number of representatives, as determined by the Secretary, of persons who

import cotton into the United States. Each cotton-producing State shall be entitled to at least one representative on the Cotton Board.";

(3) in the first sentence of subsection (e)—

(A) inserting ", and handlers who are importers shall pay to the Cotton Board on imported cotton" before ", an assessment"; and

(B) striking out "$200,000" and inserting "$300,000".

(b)(1) Notwithstanding any provision of the Cotton Research and Promotion Act in effect prior to the date of enactment of this Act, or any rule or procedure issued thereunder, the Secretary of Agriculture shall issue a proposed amendment to the order in effect under such Act on the date of enactment of this Act, in accordance with the procedure prescribed in such Act, that contains the following:

(A) Procedures under which an appropriate number of persons who import cotton shall serve on the Cotton Board.

(B) A provision subjecting cotton and the products thereof imported into the United States to the assessments provided for in section 7(e) of the Cotton Research and Promotion Act, with the quantity and value of such cotton to be established in accordance with regulations issued by the Secretary.

(C) A provision terminating the authority of the Cotton Board to accept and process applications for refunds of assessments (as provided in section 11(b) of the Cotton Research and Promotion Act).

Within a reasonable period after enactment of this subsection, the Secretary shall publish the proposed amendment to the order. Such publication shall provide notice and opportunity for interested persons to comment on the proposed amendment. After notice and opportunity for comment are so provided, the Secretary shall issue the proposed amendment to the order, which shall become effective if approved in a referendum, as provided for in section 8(b) of the Cotton Research and Promotion Act.

SEC. 4. Section 8 of the Cotton Research an Promotion Act (7 U.S.C. 2107) is amended by designating the text thereof as subsection "(a)", and by adding at the end thereof new subsections (b) and (c), as follows:

"(b) Notwithstanding the foregoing provisions of this section, the Secretary shall, within a period not to exceed 8 months from the date of enactment of the Cotton Research and Promotion Program Act of 1987, conduct a referendum among persons who have been cotton producers during a representative period, as determined by the Secretary, for the purpose of ascertaining whether they approve or disapprove the proposed amendment to the order specified in such Act and shall publish the results of the referendum. Within a period not to exceed 90 days from publication of the results of the referendum, the Secretary shall publish final implementing regulations which will be effective on publication.

"(c) The failure of cotton producers to approve an amendment to any order issued under this Act shall not be deemed to invalidate such order.'

SEC. 5. Section 11 of the Cotton Research and Promotion Act (7 U.S.C. 2110) is amended by—

(1) designating the text thereof as subsection "(a)";

(2) striking out "Notwithstanding any other provision of this Act, any" and inserting in lieu thereof "Except as provided in subsection (b), any"; and

(3) adding at the end thereof a new subsection (b), as follows:

"(b)(1) Beginning on the date of enactment of the Cotton Research and Promotion Program Act of 1987, refunds of assessments collected under this Act shall be made only as authorized by the provisions of this subsection.

"(2) Prior to the date that the results of the referendum conducted under section 8(b) are announced by the Secretary, any person shall have the right to demand and receive from the Cotton Board a refund of an amount collected under section 7 if such person is reponsible for paying such amount and does not support the program established under this Act. Such demand shall be made in accordance with regulations, on a form, and within a time period prescribed by the Cotton Board and approved by the Secretary, but in no event less than 90 days from the date of payment, and on proof satisfactory to the Board that such person paid the amont for which refund is sought. Any such refund shall be made within 60 days after demand therefor.

"(3) Effective beginning on the date that the Secretary announces the results of the referendum conducted under section 8(b), and if such referendum is approved by a majority of those persons voting in the referendum, the authority of the Cotton Board to accept and process applications for refunds under this section shall teminate, unless such date is prior to July 1, 1988, in which case the authority shall terminate on June 30, 1988."

SEC. 6. Section 17 of the Cotton Research and Promotion Act (7 U.S.C. 2116) is amended by—

(1) in subsection (c), inserting "(1)" after "means", and adding after "seed" the following: "and (2) upland cotton produced in foreign countries and imported into the United States, and products containing processed cotton that were produced in foreign countries and imported into the United States"; and

(2) in subsection (d), inserting "or who imports cotton into the United States" after "cottonseed".

BRIEF EXPLANATION

H.R. 1622, the Cotton Research and Promotion Program Act of 1987, will—

(1) Make additional legislative findings that cotton imported into the United States is in the current of interstate or foreign commerce or directly burdens, obstructs, or affects interstate or foreign commerce in cotton and cotton products.

(2) Establish as a policy of Congress, and purpose of the Act, that it is in the public interest to authorize and establish a procedure for the development and implementation of a research and promotion program financed through assessments on all cotton marketed in, and imported into, the United States.

(3) Expand the Cotton Board to include an appropriate number of representatives, as determined by the Secretary, of persons who import cotton into the United States.

(4) Increase from $200,000 to $300,000 the amount that the Cotton Board may reimburse the Secretary of Agriculture for costs of conducting referendums under the Act.

(5) Direct the Secretary to publish proposed amendments to the order currently in effect, within a reasonable period after enactment of the bill, that:

(A) specifies procedures for cotton importers to serve on the Cotton Board;

(B) subjects cotton and cotton products imported into the United States to the same assessments that are placed on domestic cotton to pay for the research and promotion program, with the quantity and value of the imported cotton established in regulations issued by the Secretary; and

(C) terminates the authority of the Cotton Board to provide refunds of assessments.

(6) Direct the Secretary of Agriculture to conduct, and publish the results of, a referendum among cotton producers within 8 months after the date of enactment of the bill to determine if they approve or disapprove of the proposed amendments.

(7) Allow refunds of assessments, from producers who do not support the research and promotion program, prior to the date that the results of the referendum are announced. If the proposed amendments to the current order are approved, the Cotton Board's authority to refund assessments would terminate.

(8) Expand the definition of cotton to include upland cotton, and products containing processed cotton, that were produced in foreign countries and imported into the United States.

(9) Expand the definition of handler to include persons who import cotton into the United States.

4

Purpose and Need

H.R. 1622 authorizes a referendum to determine grower support for a 100 percent uniform assessment on domestically produced upland cotton and on the cotton content of imported cotton products.

During the 1950's and early 1960's, the U.S. cotton industry saw its domestic markets steadily deteriorate, primarily because of aggressive marketing by the synthetic fiber industry. Thus, in the early 1960's, attention was focused on the need for the nation's cotton producers to initiate a self-help program to conduct research, product development, advertising, and promotion of cotton products. It was hoped that such a program would halt the decline in domestic markets, as well as regain and expand these markets.

In order to finance such a program, Congress passed the Cotton Research and Promotion Act in 1966. The Act authorized a referendum to determine if U.S. cotton producers would agree to a self-imposed assessment of $1.00 per bale, and established a Cotton Board to administer the program, if approved. The producer referendum was subsequently held and the program was overwhelmingly approved.

In 1976, Congress amended the Cotton Research and Promotion Act to end federal supplemental financing of the program, and to authorize a producer referendum on whether or not to increase the producer assessments. The referendum was approved, and subsequently the cotton research and promotion program has been conducted exclusively with income generated by assessments on domestically produced cotton.

Currently, the assessment rate is $1.00 per bale of cotton plus 0.6 percent of the value of the commodity at the point of first sale. There has been no direct contribution of federal funds since 1977.

The primary competition in the market for cotton remains the highly concentrated synthetic fiber industry which spends $350 million annually on fiber research and promotion programs. In an attempt to be more competitive with the synthetic fiber industry, U.S. cotton producers have, for the past 20 years, continued to assess themselves to pay for research and promotion. Although the annual program budget has averaged only about $18 million, this spending has generated significant contributions to the cotton industry through research, new product development, and by building consumer awareness and recognition of cotton products.

As a result of the investments made by cotton producers, through a coordinated research program utilitzing contracts and cooperative agreements with State experiment stations, a module system to more efficiently handle seed-cotton has been developed. Textile research has resulted in improved flame retardant treatments, improved permanent press treatments, more economical dyeing procedures, the adaptability of new textile equipment to cotton processing, and vital information on health and safety issues. The cooperative advertising and promotion programs have built consumer awareness, and increased the demand for cotton products as evidenced by the market share gains made by cotton in numerous end-products.

The Committee recognizes the positive benefits of a strong, coordinated research and promotion program and feels that additional funding would allow cotton producers to conduct an even more effective program of research and promotion in order to maintain a viable, competititve cotton industry.

It is important to note that imported cotton products have benefited from the producer financed research and promotion program. In fact, imported cotton products accounted for 39 percent of the total domestic consumption in 1986. Of these imported cotton products, which amounted to 4 million bale equivalents, 80 percent were made entirely from foreign grown cotton. Thus, the bill is designed to ensure that imported cotton and imported cotton products contribute a fair share of the cost of market development, by requiring contributions based on the cotton content of imported cotton products. However, assessments on imported cotton products will be equivalent to those now imposed on U.S.-produced cotton.

The small contribution from imported cotton products will have no measureable effect on consumer prices. For example, the assessment rate will probably amount to less than one-third of a cent for a 100 percent cotton shirt. The bill is also consistent with international trade agreements that require assessements to be applied equally, because checkoff contributions will be required for all domestic growers by the elimination of the existing refund authority. In the interest of fairness, the bill authorizes the representation by cotton importers on the governing body that supervises the operation of the research and promotion program.

The Committee does not intend for the bill to result in additional administrative costs for the federal government. Moreover, the bill provides that any such administrative costs are to be reimbursed through the program.

It is also noted that the Committee has heard from individuals that would support periodic (every five years) producer referenda on whether or not the cotton research and promotion program should be continued. Therefore, the Secretary should consider conducting periodic referenda with an interval of approximately five years to determine producer support for the program.

The cotton research and promotion program has proved its effectiveness in finding new and better ways to use cotton, and in regaining and expanding markets for this important crop. H.R. 1622 is designed to make this self-help effort even more effective. In addition, the bill will build on the highly successful cotton program provided in the 1985 Farm Bill, which has played a crucial role in reestablishing the competitiveness of the U.S. cotton industry, and created an environment that offers tremendous potential for greater consumption of U.S. cotton.

Section-by-Section Analysis

Section 1—Short title

Section 1 provides that the bill may be cited as the "Cotton Research and Promotion Program Act of 1987".

Section 2—Congressional declaration of policy

Section 2 will amend section 2 of the Cotton Research and Promotion Act, which establishes legislative findings and contains a declaration of policy statement.

Paragraph (1) of section 2 will amend section 2 of the Act (in the fourth sentence of the first paragraph) to acknowledge that cotton imported into the United States is in the current of interstate or foreign commerce or directly burdens, obstructs, or affects interstate or foreign commerce in cotton and cotton products.

Section 2 of the Act currently recognizes that cotton produced in the United States is in the current of interstate or foreign commerce or directly burdens, obstructs, or affects interstate or foreign commerce in cotton and cotton products.

Paragraph (2) of section 2 will strike out, in section 2 of the Act, the sixth sentence of the first paragraph. The sentence provides that in the years since World War II, United States cotton and the products thereof have been confronted with intensive competition, both at home and abroad, from foreign-grown cotton and from other fibers, primarily manmade fibers.

Paragraph (3) of section 2 will amend section 2 of the Act (in the third paragraph) to provide that it is the policy of the Congress and the purpose of the Act that it is essential, in the public interest through the exercise of the powers provided therein, to authorize and enable the establishment of an orderly procedure for the development, financing through adequate assessments on all cotton marketed in the United States, and carrying out of an effective and continuous coordinated program of research and promotion designed to strengthen cotton's competitive position and to maintain and expand domestic and foreign markets and uses for United States cotton and cotton imported into the United States. Section 2 of the Act currently recognizes the need for assessments on all cotton produced in the United States to finance the development and carrying out of an effective and continuous coordinated research and promotion program to strengthen cotton's competitive position and to maintain and expand domestic and foreign markets and uses for United States cotton.

Section 3—Cotton importers

Subsection (a)(1) of section 3 will amend section 7(a)(2) of the Cotton Research and Promotion Act to clarify that orders issued under the Act must contain terms and conditions to permit the Cotton Board to make rules and regulations to effectuate the order, including the designation of handlers responsible for collecting assessments. Currently section 7(a)(2) refers only to producer assessments.

Subsection (a)(2) of section 3 will amend section 7(b) of the Act to require that orders issued under the Act contain terms and conditions providing that the Cotton Board must include an appropriate number of representatives, as determined by the Secretary, of persons who import cotton into the United States.

Subsection (a)(3) of section 3 will amend section 7(e) of the Act to require that orders issued under the Act must contain terms and conditions providing that handlers who are importers must pay to

the Cotton Board, on imported cotton, an assessment prescribed by the order (on the basis of bales of cotton handled) for such expenses and expenditures, including provision for a reasonable reserve, as the Secretary of Agriculture finds are reasonable and likely to be incurred by the Cotton Board under the order, during any period specified by the Secretary.

Subsection (a)(3) of section 3 will amend section 7(e) of the Act to increase, from $200,000 to $300,000, the authorization for amounts that the Cotton Board may reimburse the Secretary of Agriculture for the cost of conducting any referendum under section 8 of the Act.

Subsection (b)(1) of section 3 provides that notwithstanding any provision of the Act in effect prior to the date of enactment of the bill, or any rule or procedure issued thereunder, the Secretary must issue a proposed amendment to the order in effect under the Act on the date of enactment of the bill, in accordance with the procedure prescribed in the Act, that contains—

(1) Procedures under which an appropriate number of persons who import cotton shall serve on the Cotton Board.

(2) A provision subjecting cotton and the products thereof imported into the United States to assessments provided for by the Act, with the quality and value of the imported cotton to be established in accordance with regulations issued by the Secretary.

(3) A provision terminating the authority of the Cotton Board to accept and process applications for refunds of assessments (as provided in section 11 of the Act, as amended by the bill).

Subsection (b)(2) of section 3 provides that within a reasonable period after enactment of the bill, the Secretary must publish the proposed amendment to the order. The publication must provide notice and opportunity for interested persons to comment on the proposed amendment. After notice and opportunity for comment are so provided, the Secretary must issue the proposed amendment to the order, which will become effective if approved in a referendum, as provided for by the Act.

Section 4—Referendum

Section 4 will amend section 8 of the Cotton Research and Promotion Act by designating the existing text as subsection (a), and adding new subsections (b) and (c).

New subsection (b) of section 8 would provide that—

(1) Notwithstanding the other provisions of section 8, the Secretary of Agriculture must, within a period not to exceed 8 months after the date of enactment of the bill, conduct a referendum among persons who have been cotton producers during a representative period, as determined by the Secretary, for the purpose of ascertaining whether they approve or disapprove the proposed amendment to the order specified in the bill, and publish the results of the referendum.

(2) Within 90 days from the publication of the results of the referendum, the Secretary must publish final implementing regulations which will be effective on publication.

(3) The failure of cotton producers to approve an amendment to any order issued under the Act will not be deemed to invalidate the order.

Section 5—Refunds of assessments

Section 5 will amend section 11 of the Cotton Research and Promotion Act by designating the existing text as subsection (a) and adding a new subsection (b).

New subsection (b) of section 11 would provide:

(1) Beginning on the date of enactment of the bill, refunds of assessments collected under the Act will be made only as authorized thereunder.

(2) Prior to the date that the results of the referendum, conducted under amended section 8(b), are announced by the Secretary of Agriculture, any person will have the right to demand and receive from the Cotton Board a refund of an assessment if the person was responsible for paying the amount and does not support the program established under the Act.

(3) Demands must be made in accordance with regulations, on a form, and within the time period prescribed by the Cotton Board and approved by the Secretary, but in no event less than 90 days from payment, and on proof satisfactory to the Board that the person paid the amount for which refund is sought.

(4) Any refund must be made within 60 days after demand.

(5) Effective beginning on the date that the Secretary announces the results of the referendum conducted under amended section 8(b), and if the referendum is approved by a majority of those persons voting in the referendum, the authority of the Cotton Board to accept and process applications for refunds will terminate, unless the date is prior to July 1, 1988, in which case the authority will terminate on June 30, 1988.

Section 6—Definitions

Section 6(1) will amend section 17(c) of the Cotton Research and Promotion Act to provide that the definition of cotton, as used in the Act, includes upland cotton produced in foreign countries and imported into the United States, and products containing processed cotton that were produced in foreign countries and imported into the United States.

Currently, under section 17(c), cotton means all upland cotton harvested in the United States, and, except as used in section 7(e), includes cottonseed of such cotton and products derived from such cotton and its seed.

Section 6(2) will amend section 17(d) of the Act to provide that the definition of handler will include any person who handles cotton or cottonseed, or who imports cotton into the United States, in the manner specified in the order or in the rules and regulations issued thereunder.

Currently, under section 17(d), the definition of handler does not include persons who import cotton into the United States.

9

COMMITTEE CONSIDERATION

I.

The Subcommittee on Cotton, Rice, and Sugar held a public hearing on March 18, 1987, to review H.R. 1622. Testimony was heard from various segments of the U.S. cotton industry, including farmers, ginners, cooperatives, textile manufacturers, and cottonseed crushers.

Specifically, the hearing included 23 witnesses, with representatives from: The National Cotton Council, the Producer Steering Committee of the National Cotton Council, the National Cottonseed Products Association, the National Cotton Ginners Association, the American Textile Manufacturers Institute, the Cotton Warehouse Association, the American Farm Bureau, and the Delta Council. These and other witnesses testified in support of H.R. 1622.

The proponents of the bill stressed the success of the cotton research and promotion self-help program over the past 20 years, and several pointed out that imported cotton products have shared in this success, and should now share in the cost of the program. Many witnesses stressed the need to strengthen the program, stating that it is only through research and promotion that cotton and cotton products will be able to compete effectively with synthetic fibers.

Several witnesses, although testifying in support of H.R. 1622, suggested that an amendment be adopted to provide for a producer referendum on continuation of the program every five-years.

Several witnesses testified that if the program proposed in H.R. 1622 is implemented, the increased funding for research and promotion will no doubt increase the demand for cotton, which, in turn, will decrease Government expenditures in the cotton price support program.

In addition, witnesses from the Cotton Board and Cotton Incorporated provided a useful overview of their research and promotion activities.

II.

Following the public hearing on March 18, 1987, the Subcommittee on Cotton, Rice, and Sugar met, pursuant to notice, in business session to consider H.R. 1622.

Subcommittee Chairman Huckaby called up the bill for consideration, and briefly described its major provisions.

Mr. Holloway asked how assessments would be made on imported cotton products under the bill. Mr. Huckaby explained that assessments would be made on imported cotton products on a bale equivalent basis.

Mr. Stenholm said that while the bill would eliminate refunds of research and promotion assessments, which is somewhat controversial in his Congressional District, overall, he supports the bill because of the total benefits it will provide for the future of the cotton industry. Mr. Huckaby said that it is important from the trade law perspective that all domestic cotton producers participate in the program in order to fairly assess imported cotton and im-

ported cotton products. Mr. Huckaby noted that the bill would provide just a mechanism.

Mr. Huckaby asked that by unanimous consent the staff be authorized to make two technical amendments to the bill. Mr. Huckaby explained that the amendments would address concerns raised by the Department of Agriculture about the time constraints provided in the bill, and increase the amount that the cotton industry may reimburse the Secretary for conducting referenda. The Subcommittee agreed to the amendments without objection. There were no further amendments.

Mr. Stallings moved that the bill, as amended, be reported favorably to the full Committee. The Stallings motion was agreed to by voice vote, and in the presence of a quorum.

III.

The Committee met, pursuant to notice, in an open business meeting on Tuesday, June 2, 1987 to consider H.R. 1622 as reported by the Subcommittee on Cotton, Rice, and Sugar.

Chairman de la Garza called up H.R. 1622 and recognized Mr. Huckaby, the Chairman of the Subcommittee. Mr. Huckaby provided a brief description of the bill for the Committee. Mr. Stangeland, the Ranking Minority Member of the Subcommittee, expressed his support for the bill. Mr. English commended Mr. Huckaby for his work in bringing the bill before the Committee.

Mr. Glickman expressed his concern that the bill may result in trade difficulties with other countries. Mr. Huckaby noted that various trade concerns had been addressed during drafting of the bill. Mr. Huckaby noted that because the bill would repeal the voluntary (refund) provisions of current law, it would meet the trade law requirement that foreign produced goods be treated the same as those produced in the United States. Mr. Huckaby also said that the dollar value of the assessment on foreign grown cotton would be small, about $3 million, relative to the multibillion dollar world cotton related industry. Mr. Stangeland noted that currently products made with foreign grown cotton benefit from the assessments paid by U.S. cotton producers without paying any of the cost of the cotton research and promotion program.

After further discussion, Mr. Huckaby moved that the Committee report H.R. 1622, as amended, to the House with a recommendation that the bill do pass. The motion was agreed to by voice vote and in the presence of a quorum of 33 Members present and voting.

ADMINISTRATION POSITION

At the time of the filling of this report, the Committee had not received a report from the U.S. Department of Agriculture concerning H.R. 1622, as amended.

BUDGET ACT COMPLIANCE (SECTION 308 AND SECTION 403)

The provisions of clause 2(l)(3)(B) of Rule XI of the Rules of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974 (relating to estimates of new budget authority, new spending authority, or new credit authority, or increased or decreased revenues or tax expenditures) are not considered applica-

ble. The estimate and comparison required to be prepared by the Director of the Congressional Budget Office under clause 2(l)(3)(C) of Rule XI of the Rules of the House of Representatives and section 403 of the Congressional Budget Act of 1974 submitted to the Committee prior to the filing of this report are as follows:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, October 2, 1987.

Hon. E DE LA GARZA,
Chairman, Committee on Agriculture, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.R. 1622, the Cotton Research and Promotion Program Act of 1987, as ordered reported by the House Committee on Agriculture on June 2, 1987. CBO estimates that enactment of the bill would reduce budget authority and outlays of the Commodity Credit Corporation (CCC) by about $3 million in fiscal year 1989 and by about $5 million per year thereafter, if the assessment changes are approved in the mandated referendum.

Under current law, domestic cotton producers pay an assessment, based on their production, to the Cotton Board to support cotton research and production activities. The Cotton Board is an industry body, and not a government agency; neither its receipts nor its expenditures are reflected on the federal budget.

H.R. 1622 would require that imported cotton and cotton products be subject to assessments at the same rate as domestic cotton, subject to approval in a referendum of cotton producers. The amount of the assessment does not affect the federal budget, and the cost of the referendum and its administrative costs would be paid by the Cotton Board. Therefore, these provisions would result in no net cost to the federal government.

If the assessment changes are approved in the referendum, about $20 million per year in additional funds would be available to the Cotton Board for promotion and research activities. It is likely that increased promotional expenditures by the Cotton Board would increase domestic cotton consumption, and therefore reduce CCC expenditures for its cotton program. If cotton consumption were to increase by about 1 percent, we estimate that CCC savings would be about $3 million in 1989 and $5 million annually thereafter.

Enactment of this bill would not affect the budgets of state and local governments.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,
Sincerely,

EDWARD M. GRAMLICH,
Acting Director.

INFLATIONARY IMPACT STATEMENT

Pursuant to clause 2(l)(4) of Rule XI of the Rules of the House of Representatives, the Committee estimates that enactment of H.R. 1622, as amended, the Cotton Research and Promotion Program

Act of 1987, will have no inflationary impact on the national economy.

Oversight Statement

No summary of oversight findings and recommendations made by the Committee on Government Operations under clause 2(b)(2) of Rule X of the Rules of the House of Representatives was available to the Committee with reference to the subject matter specifically addressed by H.R. 1622, as amended.

No specific oversight activities other than the hearings detailed in this report were conducted by the Committee within the definition of clause 2(b)(1) of Rule X of the Rules of the House of Representatives.

Changes in Existing Law

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

Cotton Research and Promotion Act

(7 U.S.C. 2101–2118)

AN ACT To enable cottongrowers to establish, finance, and carry out a coordinated program of research and promotion to improve the competitive position of, and to expand markets for, cotton

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act shall be known as the Cotton Research and Promotion Act. (7 U.S.C. 2101 note.)

LEGISLATIVE FINDINGS AND DECLARATION OF POLICY

Sec. 2. Cotton is the basic natural fiber of the Nation. It is produced by many individual cottongrowers throughout the various cotton-producing States of the Nation. Cotton moves in large part in the channels of interstate and foreign commerce and such cotton which does not move in such channels directly burdens or affects interstate commerce in cotton and cotton products. All cotton produced in the United States *and imported into the United States* is in the current of interstate or foreign commerce or directly burdens, obstructs, or affects interstate or foreign commerce in cotton and cotton products. The efficient production of cotton and the maintenance and expansion of existing markets and the development of new or improved markets and uses is vital to the welfare of cottongrowers and those concerned with marketing, using, and processing cotton as well as the general economy of the Nation. [In the years since World War II, United States cotton and the products thereof have been confronted with intensive competition, both at home and abroad, from foreign-grown cotton and from other fibers, primarily manmade fibers.] The great inroads on the market and uses for United States cotton which have been made by

manmade fibers have been largely the result of extensive research and promotion which have not been effectively matched by cotton research and promotion. The production and marketing of cotton by numerous individual farmers have prevented the development and carrying out of adequate and coordinated programs of research and promotion necessary to the maintenance and improvement of the competitive position of, and markets for, cotton. Without an effective and coordinated method for assuring cooperative and collective action in providing for, and financing such programs, individual cotton farmers are unable adequately to provide or obtain the research and promotion necessary to maintain and improve markets for cotton.

It has long been found to be in the public interest to have, or endeavor to have, a reasonable balance between the supply of and demand for cotton grown in this country. To serve this public interest the Congress has provided for the comprehensive exercise of regulatory authority in regulating the handling of such cotton supplemented by price-support programs with the objective of adjusting supply to demand in the interest of benefiting producers and all others concerned with the production and handling of cotton as well as the general economy of the country. In order for the objective of such programs to be effectuated to the fullest degree, it is necessary that the existing regulation of marketing be supplemented by providing as part of the overall governmental program for effectuating this objective, means of increasing the demand for cotton with the view of eventually reducing or eliminating the need for limiting marketings and supporting the price of cotton.

It is therefore declared to be the policy of the Congress and the purpose of this Act that it is essential in the public interest through the exercise of the powers provided herein, to authorize and enable the establishment of an orderly procedure for the development, financing through adequate assessments on all cotton [harvested] *marketed* in the United States *and cotton imported into the United States*, and carrying out an effective and continuous coordinated program of research and promotion designed to strengthen cotton's competitive position and to maintain and expand domestic and foreign markets and uses for United States cotton. (7 U.S.C. 2101.)

* * * * * * *

REQUIRED TERMS IN ORDERS

SEC. 7. Orders issued pursuant to this Act shall contain the following terms and conditions:

(a) Providing for the establishment and selection by the Secretary, of a Cotton Board, and defining its powers and duties, which shall include only the powers: (1) To administer such order in accordance with its terms and provisions; (2) To make rules and regulations to effectuate the terms and provisions of such order, including the designation of the handler responsible for collecting the [producer] *assessment;* (3) To receive, investigate, and report to the Secretary complaints of violations of such order; and (4) To recommend to the Secretary amendments to such order. (7 U.S.C. 2106(a).)

(b) Providing that the Cotton Board shall be composed of *(1)* representatives of cotton producers selected by the Secretary from nominations submitted by eligible producer organizations within a cotton-producing State, as certified pursuant to section 14 of this Act, or, if the Secretary determines that a substantial number of producers are not members of or their interests are not represented by any such eligible producer organizations, from nominations made by producers in the manner authorized by the Secretary, so that the representation of cotton producers on the Board for each cotton-producing State shall reflect, to the extent practicable, the proportion which that State's marketings of cotton bears to the total marketings of cotton in the United States[: *Provided, however,* That each cotton-producing State shall be entitled to at least one representative on the Cotton Board.] , *and (2) an appropriate number of representatives, as determined by the Secretary, of persons who import cotton into the United States. Each cotton-producing State shall be entitled to at least one representative on the Cotton Board.* The Secretary may appoint a number of consumer advisors to the Cotton Board not to exceed 15 per centum of the membership of the Cotton Board. The Cotton Board shall reimburse the consumer advisors for expenses incurred in attending meetings of the Board in the same manner as the Cotton Board members.

(c) Providing that the Cotton Board shall, subject to the provisions of subsection (g) of this section, develop and submit to the Secretary for his approval any advertising or sales promotion or research and development plans or projects, and that any such plan or project must be approved by the Secretary before becoming effective. (7 U.S.C. 2106(c).)

(d) Providing that the Cotton Board shall, subject to the provisions of subsection (g) of this section, submit to the Secretary for his approval, budgets on a fiscal period basis of its anticipated expenses and disbursements in the administration of the order, including probable costs of advertising and promotion and research and development projects. (7 U.S.C. 2106(d).)

(e) Providing that the producer or other person for whom the cotton is being handled shall pay to the handler of cotton designated by the Cotton Board pursuant to regulations issued under the order and that such handler of cotton shall collect from the producer or other person for whom the cotton, including cotton owned by the handler, is being handled, and shall pay to the Cotton Board, *and handlers who are importers shall pay to the Cotton Board on imported cotton,* an assessment prescribed by the order, on the basis of bales of cotton handled, for such expenses and expenditures, including provision for a reasonable reserve, as the Secretary finds are reasonable and likely to be incurred by the Cotton Board under the order, during any period specified by him, and for reimbursing the Secretary (1) for expenses not to exceed [$200,000] *$300,000* incurred by him in connection with any referendum conducted under section 8, and (2) for administrative costs incurred by the Secretary for supervisory work up to 5 employee years after an order or amendment to an order has been issued and made effective. To facilitate the collection and payment of such assessments, the Cotton Board may designate different handlers or classes of handlers to recognize differences in marketing practices or proce-

dures utilized in any State or area, except that no more than one such assessment shall be made on any bale of cotton, unless specifically authorized by provisions of this subsection. The rate of assessment prescribed by the order shall be $1 per bale of cotton handled but, subject to approval in a referendum as provided in section 8, the Secretary shall issue an amendment to the order which shall provide that, in each marketing year, the rate shall be supplemented by an additional per bale amount to be collected or paid as provided in this subsection, such amount to be at a rate as prescribed in the amendment to the order, but not exceed 1 per centum of the value of cotton as determined by the Cotton Board and the Secretary. Neither the amendment to the order authorized by the foregoing provisions nor the disapproval of such amendment in a referendum shall operate to decrease or otherwise affect the amount of the assessment of $1 per bale in effect under the order published in the Federal Register on December 31, 1966. No authority under this Act may be used as a basis to advertise or solicit votes in any referendum relating to the rate of assessment with funds collected under this Act. The Secretary may maintain a suit against any person subject to the order for the collection of such assessment, and the several district courts of the United States are hereby vested with jurisdiction to entertain such suits regardless of the amount in controversy: *Provided,* That the remedies provided for elsewhere in this Act or now or hereafter existing at law or in equity. (7 U.S.C. 2106(e).)

(f) Providing that the Cotton Board shall maintain such books and records and prepare and submit such reports from time to time, to the Secretary as he may prescribe, and for appropriate accounting by the Cotton Board with respect to the receipt and disbursement of all funds entrusted to it. (7 U.S.C. 2106(f).)

(g) Providing that the Cotton Board, with the approval of the Secretary, shall enter into contracts or agreements for the development and carrying out of the activities authorized under the order pursuant to sections 6 (a) and (b), and for the payment of the costs thereof with funds collected pursuant to the order, with an organization or association whose governing body consists of cotton producers selected by the cotton producer organizations certified by the Secretary under section 14, in such manner that the producers of each cotton-producing State will, to the extent practicable, have representation on the governing body of such organization in the proportion that the cotton marketed by the producers of such State bears to the total cotton marketed by the producers of all cotton-producing States subject to adjustments to reflect lack of participation in the program by reasons of refunds under section 11. Any such contract or agreement shall provide that such contracting organization or association shall develop and submit annually to the Cotton Board, for the purpose of review and making recommendations to the Secretary, a program of research, advertising, and sale promotion projects, together with a budget, or budgets, which shall show the estimated cost to be incurred for such projects, and that any such projects shall become effective upon approval by the Secretary. Any such contract or agreement shall also provide that the contracting organization shall keep accurate records of all its transactions and make an annual report to the Cotton Board of ac-

tivities carried out and an accounting for funds received and expended, and such other reports as the Secretary may require. (U.S.C. 2106(g).)

(h) Providing that no funds collected by the Cotton Board under the order shall in any manner be used for the purpose of influencing governmental policy or action, except as provided by subsection (a)(4) of this section. (7 U.S.C. 2106(h).)

REQUIREMENT OF REFERENDUM AND COTTON PRODUCER APPROVAL

SEC. 8. *(a)* The Secretary shall conduct a referendum among persons who, during a representative period determined by the Secretary, have been engaged in the production of cotton for the purpose of ascertaining whether the issuance of an order is approved or favored by producers. No order issued pursuant to this Act shall be effective unless the Secretary determines that the issuance of such order is approved or favored by not less than two-thirds of the producers voting in such referendum, or by the producers of not less than two-thirds of the cotton produced during the representative period by producers voting in such referendum and by not less than a majority of the producers voting in such referendum. (7 U.S.C. 2107.)

(b) Notwithstanding the foregoing provisions of this section, the Secretary shall, within a period not to exceed 8 months from the date of enactment of the Cotton Research and Promotion Program Act of 1987, conduct a referendum among persons who have been cotton producers during a representative period, as determined by the Secretary, for the purpose of ascertaining whether they approve or disapprove the proposed amendment to the order specified in such Act and shall publish the results of the referendum. Within a period not to exceed 90 days from publication of the results of the referendum, the Secretary shall publish final implementing regulations which will be effective on publication.

(c) The failure of cotton producers to approve an amendment to any order issued under this Act shall not be deemed to invalidate such order.

SUSPENSION AND TERMINATION OF ORDERS

SEC. 9. (a) The Secretary shall, whenever he finds that any order issued under this Act, or any provision thereof, obstructs or does not tend to effectuate the declared policy of this Act, terminate or suspend the operation of such order or such provision thereof. (7 U.S.C. 2108(a).)

(b) The Secretary may conduct a referendum at any time, and shall hold a referendum on request of 10 per centum or more of the number of cotton producers voting in the referendum approving the order, to determine whether cotton producers favor the termination or suspension of the order, and he shall suspend or terminate such order at the end of the marketing year, as defined in the order, whenever he determines that suspension or termination of the order is approved or favored by a majority of the producers of cotton voting in such referendum who, during a representative period determined by the Secretary, have been engaged in the production of cotton, and who produced more than 50 per centum of

the volume of the cotton produced by the cotton producers voting in the referendum. (7 U.S.C. 2108(b).)

(c) The termination or suspension of any order, or any provision thereof, shall not be considered an order within the meaning of this Act. (7 U.S.C. 2108(c).)

PROVISIONS APPLICABLE TO AMENDMENTS

SEC. 10. The provisions of this Act applicable to orders shall be applicable to amendments to orders. (7 U.S.C. 2109.)

PRODUCER REFUNDS

SEC. 11. *(a)* [Notwithstanding any other provision of this Act, any] *Except as provided in subsection (b), any* cotton producer against whose cotton any assessment is made and collected from him under the authority of this Act and who is not in favor of supporting the research and promotion program as provided for herein shall have the right to demand and receive from the Cotton Board a refund of such assessement: *Provided,* That such demand shall be made personally by such producer in accordance with regulations and on a form and within a time period prescribed by the Board and approved by the Secretary, but in no event less than ninety days, and upon submission of proof satisfactory to the Board that the producer paid the assessment for which refund is sought, and any such refund shall be made within sixty days after demand therefor. (7 U.S.C. 2110.)

(b)(1) Beginning on the date of enactment of the Cotton Research and Promotion Program Act of 1987, refunds of assessments collected under this Act shall be made only as authorized by the provisions of this subsection.

(2) Prior to the date that the results of the referendum conducted under section 8(b) are announced by the Secretary, any person shall have the right to demand and receive from the Cotton Board a refund of an amount collected under section 7 if such person is responsible for paying such amount and does not support the program established under this Act. Such demand shall be made in accordance with regulations, on a form, and within a time period prescribed by the Cotton Board and approved by the Secretary, but in no event less than 90 days from the date of payment, and on proof satisfactory to the Board that such person paid the amount for which refund is sought. Any such refund shall be made within 60 days after demand therefor.

(3) Effective beginning on the date that the Secretary announces the results of the referendum conducted under section 8(b), and if such referendum is approved by a majority of those persons voting in the referendum, the authority of the Cotton Board to accept and process applications for refunds under this section shall terminate, unless such date is prior to July 1, 1988, in which case the authority shall terminate on June 30, 1988.

* * * * * * *

DEFINITIONS

SEC. 17. As used in this Act.

(a) The term "Secretary" means the Secretary of Agriculture.

(b) The term "person" means any individual, parternship, corporation, association, or any other entity.

(c) The term "cotton" means *(1)* all upland cotton harvested in the United States, and, except as used in section 7(e), includes cottonseed of such cotton and the products and the products derived from such cotton and its seed *and (2) upland cotton produced in foreign countries and imported into the United States, and products containing processed cotton that were produced in foreign countries and imported into the United States.*

(d) The term "handler" means any person who handles cotton or cottonseed *or who imports cotton into the United States* in the manner specified in the order or in the rules and regulations issued thereunder.

(e) The term "United States" means the 50 States of the United States of America.

(f) The term "cotton-producing State" means any State in which the average annual production of cotton during the five years 1960–1964 was twenty thousand bales or more, except that any State producing cotton whose production during such period was less than such amount shall under regulations prescribed by the Secretary be combined with another State or States producing cotton in such manner that such an average annual production of such combination of States totaled twenty thousand bales or more, and the term "cotton-producing State" shall include any such combination of States.

(g) The term "marketing" includes the sale of cotton or the pledging of cotton to the Commodity Credit Corporation as collateral for a price support loan. (7 U.S.C. 2116.)

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Mr. GIBBONS. This morning the Committee on Ways and Means will receive testimony on H.R. 1622, the Cotton Research and Promotion Act of 1987. This bill would amend the current cotton research and promotion program which operates on a voluntary assessment, to make it mandatory and apply it to imports as well as the domestically produced goods.

H.R. 1622 was reported favorably by the House Committee on Agriculture on October 5, and was sequentially referred to the Committee on Ways and Means for a period ending December 4. Specifically, H.R. 1622 would require a referendum of domestic cotton producers to determine whether or not the current assessment on domestic upland cotton should be made mandatory, and should be applied to all imports of cotton and cotton-containing products. If approved by the cotton producers, the expanded mandatory program would automatically go into effect.

The bill as approved by the Committee on Agriculture raises several issues of concern to the Committee on Ways and Means which we hope to explore in today's hearing. One issue is whether it is appropriate for the Federal Government to mandate collection of fees solely for the purpose of research and promotional activities which benefit a particular domestic industry. The current program may be described as a self-imposed assessment because producers have the option of applying for a refund. The bill, however, would eliminate the refund option.

Another issue of concern is whether such mandatory assessments would be any different in substance from an excise tax. If not, then why is it being imposed by a majority of the domestic cotton producers rather than a majority of the Members of Congress? If cotton importers are bound by the results of the referendum, why are they not allowed to participate in the referendum?

Hopefully, today's hearings will enable us to answer these questions and any other questions about the bill. Today's witnesses include Congressman Huckaby of Louisiana, chief sponsor of the bill, the administration, members of the cotton industry, farmers' organizations, and textile importers.

Congressman Huckaby, in addition to being a sponsor of the bill, is a member of the House Committee on Agriculture and chairman of its Subcommittee on Cotton, Rice and Sugar. We welcome you to the committee, and you may proceed as you wish, Congressman Huckaby.

STATEMENT OF HON. JERRY HUCKABY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA, AND CHAIRMAN, SUBCOMMITTEE ON COTTON, RICE, AND SUGAR, COMMITTEE ON AGRICULTURE

Mr. HUCKABY. Thank you, Mr. Chairman, I appreciate the opportunity to appear before the committee this morning. I certainly want to express my appreciation to you, the gentleman from Florida, for your interest in this legislation and for conducting these hearings.

Mr. GIBBONS. Let me say that the chairman of the full committee would be here but he is, of course, as you know, involved in the

fiscal summit that is going on, and he asked me to come do this for him. He is really intensely involved in that negotiation.

Go ahead. Please excuse my interruption.

Mr. HUCKABY. I thank the gentleman. Members of the committee, the cotton industry has experienced an amazing turnaround in the last 2 years since the passage of the 1985 farm bill. We have seen prices at the farm go from some 35 cents to 70 cents, 70-plus cents, a doubling. We have recaptured our share of the export market, what we had in the early 1980's before the strong dollar had its adverse impact. We have seen domestic cotton consumption increase—an increase to record levels. So as a result of that, the cotton industry is in good shape today, whereas, just 2 years ago, it was on its knees.

If I might refer to an article that was in yesterday's USA Today, entitled "Industry is Weaving a Record Year," " We Cotton to This Fabric." More shoppers want cotton. I think a significant reason why more shoppers want cotton is a small, self-help program, an advertising program urging consumers to turn to the natural fiber of cotton.

The program that I am referring to has been around for a number of years now, slightly in excess of 20 years. It is a program where cotton farmers voluntarily check-off and pay approximately $2.50 per bale of cotton. And a bale of cotton, for those of you that are not familiar with it, weighs approximately 500 pounds, bringing today 60 to 70 cents in a market. So you can say it is worth $300 or more. This is at the farmer level.

And the farmer pays $2.50. It goes into a national campaign of advertising and promotion, as well as research. Currently, this program collects $18 million. It is a small program, but we feel like we get a tremendous bang for our buck here.

It is a voluntary program. Farmers who do not wish to participate can, and do, receive a refund. Some $5 million is refunded to farmers who do not wish to participate.

Mr. Chairman, I feel, and those throughout the industry feel, that we have a good thing going here, but we would like to improve it. We would like to modify it, and we would like to expand it. Since 1973, as this market has slowly grown—and it has really taken off in recent years—90 percent of the expansion within the United States has gone to imported cotton. Imported cotton is in excess of 40 percent of the entire U.S. domestic market today.

So in a way, and I think a very real way, these importers of foreign cotton are getting a free ride. They are getting the benefits of the U.S. cotton farmers' checkoff that he is paying for every bale of cotton to go into advertising and promotion. So the purpose of this legislation is simply to say that the importers of cotton should also pay in this very small advertising, promotion, and marketing campaign, although some of these dollars go to research as well.

Immediately, one is concerned about the problems with GATT; can we do this? As I understand, if we have a level playing field, we comply with the rules of GATT. So what this legislation proposes is that we would have a referendum and that all farmers would vote. And if all farmers voted for mandatory checkoff without a rebate—then all we are doing is saying that the imports

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would pay the same amount as we are paying domestically to promote this product.

It is estimated that the imports would add some $8 to $11 million to this promotional fund. So we are not talking about large dollars here. We are talking about, as I understand the numbers, less than one-third of 1 cent for an imported cotton shirt. So we are talking very small numbers, yet we feel it is significant for us to be able to continue to encourage the expansion of domestic cotton usage. And I think it is only fair that those who are gaining from this program should pay this small share.

With that, Mr. Chairman, I would urge that the members of the committee look favorably on this legislation. I would conclude by pointing out that there are some 54 various cotton organizations in the United States and 53 of the 54 have endorsed this proposition.

[The statement of Mr. Huckaby follows:]

Testimony of
Congressman Jerry Huckaby
Committee on Ways and Means
November 17, 1987

Thank you, Mr. Chairman. First let me say that it is a pleasure to be here, and that I appreciate the opportunity you have accorded me to support and defend the position of the Cotton, Rice and Sugar Subcommittee of the Committee on Agriculture, regarding H.R. 1622.

For the record, H.R. 1622 is an amendment to the Cotton Research and Promotion Act which was enacted by the Congress in 1966. This legislation allows producers of agricultural commodities to voluntarily assess themselves a part of the gross sales value of that commodity--commonly called a "check-off"--to protect and expand markets for that commodity.

Please keep in mind, H.R. 1622 is an amendment to a very effective program, authorized by law, which has been in operation for 21 years. Cotton farmers' share of the fiber market in this country had been reduced by a third when the Research and Promotion act was enacted. Since it took time to build an effective program, cotton's market share continued to fall for several more years. Then the decline was stopped, and gradually market share has been regained. Cotton products now make up about 40 percent of all non-carpet textiles sold at retail in this country--about 11.9 million 480-lb bale equivalents--the highest level in history.

The program is working. No one can deny that. It is a self-help, voluntary program by cotton farmers which has absolutely no cost to government.

H.R. 1622, very simply, would authorize cotton producers to vote in a referendum to make the check-off mandatory, instead of voluntary. Currently, about 35 percent of the monies collected are refunded to those who request it. Equity would demand that, in all fairness, those who benefit from a program should help pay for it. Fifty-three of the fifty-four cotton producer organizations in this country polled indicated their members strongly supported legislation to amend the Act.

Further, the amendment provides that if the referendum is approved by a majority of those voting, the check-off would be assessed on the cotton content of imported products at the same rate as that assessed U.S. cotton producers. Bear in mind that since this research and promotion program was enacted, the market for cotton apparel and home furnishings has expanded by almost 4 million bales. Even though the consumer demand for cotton is the highest it has been in years, many of the benefits have gone to foreign cotton producers and foreign textile and apparel makers. Cotton product imports have doubled since 1980, in spite of Administration promises to plug the loopholes. Foreign manufacturers are getting a free ride, and U.S. cotton growers are picking up the tab. U.S. farmers are losing over 40 percent of the domestic market--nearly 5 million bales--to our foreign competitors. At least 95 percent of the growth in the domestic textile market since 1973 has been absorbed by foreign imports. Many of the benefits of the U.S. cotton farmers' efforts have gone not to the people who paid for it, but to foreign mills and importers who capitalized on it.

There are those who would contend that this amendment violates GATT, or the MFA, or the bilateral agreements on trade. Our understanding of those agreements is that we only need to provide equality and a level playing field--we must treat U.S. growers and foreign growers alike. This amendment does that. The assessment is precisely the same.

Assessing the imports of cotton products is not a barrier to trade. The assessment now is $1 per bale, plus .6 of 1 percent of the gross sales value of the cotton--in 1986, about $2.50, less than 1 percent of the value of the raw cotton and about 6 thousandths of one percent of the retail value of the finished product. The assessment on an ordinary cotton shirt would be about one-third of a cent. Such a low assessment could hardly be described as a significant barrier to trade.

In fact, this amendment could actually increase trade by increasing the overall size of the market. LDC's especially, who enjoy proportionately larger annual import quota increases, should be expected to gain larger real shares of expanding consumption.

This Committee's November 10 press release stated that witnesses would be invited to comment on an alternative proposal to make this a straight tax and tariff bill--to eliminate the referendum. I am convinced that cotton producers oppose such a move. This bill provides for a referendum, up front, to determine whether cotton farmers wish to eliminate the refund privilege now included in the Research and Promotion Act. It also establishes periodic referenda in the future to see if they are agreed to continuing the mandatory check-off. Under this provision, producers will maintain a degree of control over their program. While the referendum is conducted by the Department of Agriculture, the cost is borne entirely by producers. There is no taxpayer cost. Such a move would also imply government control of a program which is now in the hands of the cotton industry.

In summary, Mr. Chairman, H.R. 1622 strengthens and makes more equitable a commodity promotion program which has been in effect since 1966, and which has proven itself to be most effective. It has absolutely no cost to taxpayers. In fact, it reduces government expenditures. Those who pay the cost are represented on a board to oversee the spending of the money. The amendment calls for follow-up referenda, at periodic intervals, to ascertain whether producers are still convinced the program is working to their satisfaction. Checks and balances are provided. The industry supports it. It has a proven track record.

I hope you will vote to report the bill out of committee, as drafted. Thank you.

Mr. PICKLE. Mr. Chairman, may I ask——

Mr. GIBBONS. Mr. Pickle.

Mr. PICKLE. Mr. Huckaby, the present law provides for a tax of $1 plus 0.6 percent of the bale's value when it is first sold. By comparison, what would be the tax on the goods that is coming into the country to those companies that are participating?

Mr. HUCKABY. If I might respond to the gentleman from Texas—the assessment is now $1 a bale, but in addition to that there is 0.6 percent of the gross sales value of the cotton, which makes the total assessment about $2.50. This is less than 1 percent of the value of the raw cotton, and about 0.006 percent of the retail value of the finished product.

As far as the imports coming in, I have a table here that I would like to submit for the record that gives various items and the assessment in dollars per unit. For instance, take a sweatshirt, pounds of raw cotton per unit is 0.94, and the assessment is 0.0047.

[The table follows:]

REPRESENTATIVE ASSESSMENT ON IMPORTED TEXTILE PRODUCTS

Products	Pounds of raw cotton per unit	Assessment in dollars per unit
Men's:		
Knit Sportshirts	0.78	.0039
Woven Dress Shirts	0.63	.0032
Sweatshirts	0.94	.0047
Woven Trousers	0.99	.0050
Woven Pajamas	1.10	.0055
Sweaters	0.97	.0049
Work Gloves (Pair)	0.18	.0009
Handkerchiefs	0.06	.0003
Women's:		
Woven Skirts	1.15	.0058
Woven Slacks	1.16	.0058
Woven Blouses & Shirts	0.62	.0031
Woven Dresses	1.71	.0086
Woven Nightgown	0.57	.0027
Sweaters	1.26	.0063
Knit Panties	0.08	.0004
Home Furnishings		
Towels	0.93	.0047
Sheets	1.80	.0090
Blankets	2.70	.0035
Table Cloth	0.72	.0036
Woven Piece Goods (Yd.)	0.32	.0016

Source: National Cotton Council.

Mr. PICKLE. Mr. Huckaby, let me restate it. If the present tax for domestic growers now is $1 plus 0.6 percent value, is that same amount being applied then to importers who bring their goods in?

Mr. HUCKABY. Yes.

Mr. PICKLE. Or would they have a different fee?

Mr. HUCKABY. Yes, it would be the same rate.

Mr. PICKLE. Same thing.

Mr. HUCKABY. Yes.

Mr. PICKLE. All right. Now has this been approved by the Agriculture Committee?

Mr. HUCKABY. Yes. It was reported unanimously.

Mr. PICKLE. And by some 40 different organizations who participate in the cotton growing area?

Mr. HUCKABY. Yes.

Mr. PICKLE. Thank you, Mr. Chairman.

Mr. GIBBONS. Thank you. Let me give you the batting order here for members. Next on our side would be Mr. Pease and Mr. Dorgan, and on the minority side would be Messrs. Schulze, McGrath, Brown, and Chandler.

Mr. Pease, why do we not go to you next, and then we will go right on through.

Mr. PEASE. Mr. Chairman, I would like to welcome my colleague and my classmate, Mr. Huckaby, to the committee. I guess the only question I would have is the one raised in the chairman's introduction, Jerry. Could you speak to the fairness of imposing this tax, if you will, on imported cotton if the importers do not have a vote, but only the local producers, American producers have a vote?

Mr. HUCKABY. It is true that in the legislation that we are proposing, the importers would not have a vote in this. We are just saying, they have been getting a free ride for all these years with the cotton advertisement that the American farmers are paying for. And we are saying, if we have a uniform assessment mandatory in which every cotton farmer would have to pay for it, we feel it would also be proper to impose a mandatory assessment on imports. Keep in mind, however, that it is a very, very small assessment.

Mr. PEASE. And what was the reason for the change in this bill for domestic producers? Under current law, those who do not wish to participate do not have to. Under your bill, they would be required to.

Mr. HUCKABY. That is correct. Of course, there would be a referendum, which we historically like to do in agriculture to let farmers vote on it. If the majority of farmers voted for it, then it would be imposed.

Mr. PEASE. And is the majority required a simple majority in the referendum?

Mr. HUCKABY. Yes, a simple majority.

Mr. PEASE. Thanks. Thanks, Mr. Chairman.

Mr. GIBBONS. Mr. McGrath.

Mr. MCGRATH. Thank you, Mr. Chairman. Jerry, the assessment that is going to be collected from foreign companies without benefit of their vote, and I guess this is the point that the chairman and Mr. Pease was making, how do you envision that these assessments would be collected? Would it be through the Customs Service or the IRS or some agency of the Government?

Mr. HUCKABY. Yes, Customs would collect the assessment. As you are very well aware, these imports come in in container loads by weight, with the cotton content specified with a bill of lading.

Mr. MCGRATH. And they would be collected at the point of entry by some Customs agent?

Mr. HUCKABY. Yes.

Mr. MCGRATH. Or some mechanism through the Customs and not the IRS?

Mr. HUCKABY. Yes, Customs rather than IRS.

Mr. MCGRATH. And the reason that the vote would be taken by the cotton producers in the United States, which I guess is something which is wired, is to negate any problems with being GATT compatible; am I correct?

Mr. HUCKABY. I am sorry, I did not understand your question.

Mr. MCGRATH. I mean, the fact that there is a rebate possible, and we are taking away that possibility of a rebate. And I guess the reason that we are doing that is because it needs to be GATT compatible; am I correct?

Mr. HUCKABY. It is our understanding that by being mandatory across the board, it would be GATT compatible. And may I also point out that we see importers actually benefiting from this, because I would certainly hope that the demand for cotton products would expand as a result of additional funds being available for advertising.

Certainly, we have seen this in the commodity milk within the last 18 months or so. We went to a farmer checkoff program there, and you have all seen the advertisements on TV of milk. And fluid milk sales have increased dramatically as a result of this. And we certainly hope this would occur for cotton also.

Mr. MCGRATH. Thank you, Mr. Chairman.

Mr. GIBBONS. Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman. I appreciate our colleague from Louisiana coming today. He is a very positive and an effective legislator. We look forward to his contribution in this area.

Jerry, let me ask, what is the reason for eliminating the refund provisions now? If I understand the procedures now, a producer is allowed to apply for and receive a refund of this assessment, and that this measure would eliminate their ability to do that; is that correct?

Mr. HUCKABY. We are having to go with an automatic assessment for everyone in order to comply with GATT, as I understand it.

Mr. BROWN. So to comply with the GATT you simply have to eliminate the potential for a refund?

Mr. HUCKABY. Right, so that everybody contributes whether it is imported cotton or domestic cotton. This is the reason we are doing this.

Mr. BROWN. What about products that are produced outside of this country with U.S. cotton that reenter the country? Is there a procedure to give a credit for the portion of cotton that has already paid their assessment? Is there a way to judge how much was foreign cotton and how much was domestic cotton? How does that work?

Mr. HUCKABY. There is very little cotton, but there is some that is exported from the United States as a raw material and then reenters. I would assume it would take a double hit.

I suspect that the administration of trying to do away with this double hit with the farmer paying for it automatically under this plan, and then it being reassessed when it comes back in, would cost more than the benefits to be gained from it. However, we would certainly be glad to look at this area and work to see if there is a feasible way to handle the problem.

Mr. BROWN. Do you have any problem if we try and develop some language to focus on that? At least give some discretion——

Mr. HUCKABY. No, I certainly would not. But keep in mind, it is a very small percent of U.S. cotton.

Mr. BROWN. It may not be worth fooling with.

Thank you very much. Thank the gentleman for his contribution.

Mr. GIBBONS. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman. Congressman Huckaby, welcome. And I assume others on the committee would want to see our cotton producers do well in this country and would like to see that industry thrive and flourish.

I would like to ask a couple of questions about how we have gotten to the point of going from a voluntary assessment with a refund to a mandatory assessment. Has the voluntary assessment proved unworkable, short of funds? In other words, why was the transition made coming out of the Agriculture Committee?

Mr. HUCKABY. We are going to mandatory in order to comply with the rules of GATT, as I understand. If we are assessing our people here, then we can assess imports. We are doing everything equal.

Mr. DORGAN. Does the current system violate GATT?

Mr. HUCKABY. GATT is not involved in it because we are not assessing imports. What we are suggesting is that we will assess imports, and to comply with GATT we will assess all domestic producers rather than the 70 percent that are voluntarily participating today.

Mr. DORGAN. Can you describe for me why some groups are opposed to this? I understand that the cotton groups are unanimously in support of it. I understand further that some farm organizations were opposed to it in the testimony before the Agriculture Committee. We will probably hear from them, but what is the basis of their opposition? Can you characterize that for me?

Mr. HUCKABY. It is difficult for me to speak for them, but let me state for the gentleman that there are 54 cotton organizations throughout the United States, and only one of these, a very small organization in the high plains of Texas, did not endorse the mandatory checkoff; 53 of the 54 did. So I would anticipate that if a referendum were held as this bill proposes, that it would pass by a wide margin among cotton farmers.

Now I understand that there is possibly one organization, that is a generic farm organization and not cotton specialty organization, that is opposed to the mandatory checkoff. They would like to keep it voluntary. However, it is our understanding that we would then be in violation of the rules of GATT, and that is why we have made it mandatory.

In other words, we cannot have it both ways. If we want to assess the imports, we have all got to pay our share.

Mr. DORGAN. All right. No further questions, Mr. Chairman. Thank you.

Mr. GIBBONS. Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman. Jerry, I apologize for being late. I have read your testimony, and if I get into a line of

questioning that has already been brought up, just stop me and bring it to my attention.

As I understand, what you are trying to do is find a way to encourage more consumers in the United States to buy apparel that uses cotton. And I assume from looking at the numbers that the effort has been successful—that you stemmed a decline, and it has been on the increase in recent years.

Mr. HUCKABY. The gentleman is correct.

Mr. ANTHONY. And I also assume from looking at the numbers that the amount of imports that have been brought into this country has also risen dramatically.

Mr. HUCKABY. The gentleman is correct. Imports have captured 90 percent of the increase in the market since 1973.

Mr. ANTHONY. So what has happened is that our foreign competitors have really been able to benefit from the domestic producers' voluntary efforts to try to displace other fibers and to encourage cotton to be used.

Mr. HUCKABY. I think the gentleman is right on target. That is true, as our domestic demand has increased, imports have increased.

Mr. ANTHONY. So it would seem to me to stand to reason that if your amendment is successful, and that if the referendum has the broad support that you have and it is made mandatory, then more money goes into the promotion. The promotion already being successful, therefore, you will have more market share to be gained. So it would be reasonable to assume that the importers would even gain additionally from your own efforts.

Mr. HUCKABY. I think the gentleman is exactly right. Certainly, the history since 1973 would indicate that the importers will get the lion's share of additional increase in consumption. Of course, we would certainly hope that the domestic cotton farmer would also be able to participate in the increase that we anticipate.

Mr. ANTHONY. Obviously, that would be your goal, and I would hope that you would be successful. I would just like, Mr. Chairman, for the record to reflect that I have a constituency in the State of Arkansas and a constituency in the Fourth Congressional District that is vitally interested in this piece of legislation.

We have 900,000 bales of production in the State of Arkansas; 6.3 percent of the U.S. production. Yet I have got 70 percent of the State's production in my congressional district. So I can tell you, from letters, and from phone calls, Jerry, that there is total agreement on this issue. I have received no calls from anybody that is in disagreement with this piece of legislation.

Something else that disturbs me though, is that there are not but about six of us on this committee who, I think, have a true understanding of agriculture.

Mr. HUCKABY. If the gentleman would yield. I am counting on your six.

Mr. ANTHONY. Unfortunately, we have some on the committee whose backgrounds just do not lend themselves to be as understanding of it. And there are some members of this committee—and I am looking at Mr. McGrath who is from New York—who we like to feed and clothe, but would especially like to get down on the farm so they would understand our problems, too.

Knowing that there may be some questions about protectionism, some questions about violations of GATT, if we passed this—would this be a program that would be standing alone by itself, or are there other commodities involved in this type of a promotion effort?

Mr. HUCKABY. Beef, and I believe pork also have very similar programs in existence today in which imports pay a certain percentage for promotional efforts.

Mr. ANTHONY. So we already have——

Mr. HUCKABY. So we are not setting a precedent.

Mr. ANTHONY. You are not setting a precedent. Actually, all you are doing is taking from prior legislation and saying, if it has worked for beef, if it has worked for pork, then it ought to work for cotton. And I think honey also has a program, and there may be one or two other commodities. Beef and pork——

Mr. DORGAN. Dairy.

Mr. ANTHONY. The gentleman from North Dakota indicates that dairy also has a program.

Mr. HUCKABY. Certainly, there is a mandatory domestic checkoff program now for dairy that has worked amazingly well.

Mr. ANTHONY. I will just close, Mr. Chairman, with a story and you have probably gotten sick of hearing this story, Mr. Gibbons, because I was on a trip with you in 1985 when we went to, I think, 12 different countries in 23 days. And we were talking about trade. Every place I went I spoke up for agriculture.

We got into Bangkok, and we discovered that because the government there was broke, just as we are broke, they determined that one of the quickest ways to bring in money was to change their excise tax on cotton, imported cotton, from a flat rate to an ad valorem rate. Immediately, when applied to cotton, the percentage increase jumped about 165 percent and it pushed the United States out of that market and let China and India into that market.

We brought this fact to their attention in a very severe way, and I am happy to say that 2 weeks after we left, they realized the error of their ways and did change the tax back. But this story just illustrates that a lot of countries produce cotton and a lot of countries are very supportive of a domestic industry.

I think you have come with a very balanced approach, and I think you have copied it from successful efforts in the past. I would strongly encourage this committee to accept this bill and report it out favorably so that you could take it to the House floor and pass it.

Mr. HUCKABY. I thank the gentleman for his remarks.

Mr. GIBBONS. You mentioned the beef and the pork programs and they just apply to beef products and to pork products. In fact, I was counting the number of tariff schedule items that they apply to—the beef and pork and honey all together probably apply to 30 products. But under this bill, when you apply it to cotton products, you hit about 300 different product classifications under the Tariff Schedules.

I frankly did not realize we had a program on beef and honey and pork, but I wonder what, as a matter of policy, should we be thinking about here on this committee? Should we limit these just

to agricultural products or should we look at manufactured products? I would like to hear you expound on that.

Mr. HUCKABY. Mr. Chairman, if I might respond, agriculture products are somewhat unique in the fact that we have many producers with no control over the marketplace. Normally when I think of a manufactured product, I think of company A competing with company B, who might both be domestic, who are also competing with company C and D who are importing companies.

I think the situation is somewhat different.

Mr. GIBBONS. I know my own orange producers have a promotion program but they have never come to Congress to ask that it be put on as a mandatory program. Nor is there any tax levied at the border, as far as I understand. Do you have any different information than that?

They have a program in Florida for oranges and for grapefruit. But it is limited, as I understand it, to the domestic producer. Is your information different than mine on that?

Mr. HUCKABY. I am not familiar with the program, Mr. Chairman. I can recall, though, the advertisements of a few years ago, that I thought were most effective, promoting specific Florida oranges, rather than California oranges or those from Texas. I would suspect that they received the benefits, whereas, with a generic commodity like cotton it is very difficult to advertise Louisiana cotton versus Arkansas or Texas cotton because, except in the specialty cottons, they are identical.

Mr. GIBBONS. Let us turn the shirt around, if we can. As the use of cotton goes up—and I applaud the use of cotton, let me say in support of your position, I have never worn anything other than cotton for more than about 10 minutes. My wife never brings anything home to me that is not cotton. I just cannot wear it. I itch and I do not mind telling you that it goes fast to the wastepaper basket.

But suppose that the consumption of the manmade fibers goes down, as I assume it probably would under this expanded program. What do we do when the manmade fiber producers come in here and say they want a promotion program to combat cotton and want the same kind of tax system? Do you think we ought to go ahead and put that under?

Mr. HUCKABY. Certainly there is an expanding U.S. market, as our population grows. However, as we all know, the rate of growth is decreasing and hence the rate of increase is certainly decreasing. Hence the Chairman is absolutely correct, whereas cotton is attempting to gather a larger share of a finite market. This would mean a decrease in synthetics.

Of course, keep in mind that an awful lot of the products in the cotton market are combinations. We are not talking pure cotton here. Combinations of synthetics, as well as cotton. I concur with the Chairman that there would be a decrease in synthetics if the cotton program is as successful as we pointed out.

But then I got back to a sense of fairness. If I am creating a market for my product through my advertising dollars and expanding my market, is it not just as fair that someone who is importing from a foreign country, who is getting the benefit of my advertising dollars, should pay a fair share? We are not saying pay more than

your fair share. We are just saying the market has been growing. You have been getting virtually all of this increase in the market. We think there is room for the market to continue to expand. We would just like you to pay your fair share of the cost of this expansion.

Of course, let me reiterate again, we are talking very small numbers here, some $8 to $10 million.

Mr. GIBBONS. I agree, they are relatively small. The problem is, Mr. Huckaby, we start something in this committee and it can grow all out of proportion. I am not talking about the cotton assessment growing all out of proportion because the growers would probably veto it if it grew all out of proportion.

But how many products do we have? Lord only knows. Hundreds of thousands of them in this country. If we start a promotion program for one, there is no reason why we should not start a promotion program for the others, in all democratic fairness to them. I do not know where we come out on that question.

As I say, we have one of these in Florida for oranges, but it is wholly voluntary and your program, up to date, has been wholly voluntary. The problem is now it would be mandatory, mandatory for all cotton producers except long staple cotton, and certainly it would be mandatory on all of the imported goods containing cotton.

What we do for one, we have got to have a good rational reason why we do not do it for another. Maybe you can help me find a rational reason why we would not do it for the others. What about the rice growers? What about the peach growers? What about the grape growers? What about the peanut growers? What about avocados?

Mr. ANTHONY. Would the Chairman yield?

Mr. GIBBONS. Yes, sir.

Mr. ANTHONY. On many of the commodities that you just named, there are marketing orders in the United States that give those particular growers a great deal of protection, especially on price. When it comes to rice and cotton, in our farm bill that was passed a couple of years ago, we did put in a very revolutionary program so that we could compete with foreign countries which had bought their way into our markets and had caused us to lose those markets.

I think a close reading of other pieces of legislation will tell the Chairman that we have, almost across the board, on a commodity-by-commodity basis, taken some course of action.

Mr. GIBBONS. In most cases, though, other than marketing orders, they are voluntary. And the marketing orders are not voluntary, but they have to be adopted by two-thirds of the producers, do they not, or something like that?

Here, in effect, we are giving a majority of the producers of a raw product the power to impose a tax—not an assessment—not just on everybody in the producing area, but also all imported goods. Now the tax is small, insignificant really, in the whole picture, but I just worry about the precedent we set when we start down this road of a mandatory tax levied by a few producers that stretches to everybody.

I am ready to go on to the rest of the witnesses.

Mr. PICKLE. Let me ask one other question, for my own information, Mr. Huckaby. I certainly appreciate your appearance.

As I understand it, under the present program, there is the tax of $1 plus six-tenths of 1 percent on value. That is considered to be a "voluntary payment" although it is assessed and the producer does pay it. But he has a right to apply for a refund.

I understand further that about 30 to 35 percent of them do apply for refund and the balance who do not apply, or the amount that is not refunded, is actually used to carry on the R&D. That is how they actually run the program.

This bill would extend the same amount of payment, according to your statement, of $1 plus six-tenths of 1 percent value, to the importer the same as assessed against domestic producers. But it would be mandatory. He, the importer, would have to pay it and could not get a refund.

Similarly, under the bill, neither can the domestic producer then get a refund, that there is to be no refund at all.

Mr. HUCKABY. That is correct.

Mr. PICKLE. If that is so, the amount of money that is collected now, as I understand, is sufficient to carry on the R&D. At least your surplus is apparently running well. Now, with none of it being refunded, you would get roughly $2.50 a bale of cotton for both domestic and imported cotton, and you would build up an awful big kitty. Is that the purpose, to get a big sum, just a huge sum of money? Do you need that?

Why would you not keep it voluntary for both, that is, let the domestic producers pay it and ask for a refund. Let the importer pay it and ask for a refund, and keep them the same, rather than make it mandatory for both? That is a question I raise with you, not in opposition to the bill but trying to say how do you make it consistent?

Otherwise, it seems to me like you are going to make everybody pay for it and no refunds available. Am I understanding correctly or incorrectly?

Mr. HUCKABY. You are absolutely correct, Mr. Pickle. We make it mandatory for domestic farmers to comply with GATT. That is, if we are going to assess all the imports, we are going to assess all the domestic farmers.

We estimate that the elimination of the refund, this 30 percent or so of farmers who apply for a refund, would yield some $5 to $7 million a year that would additionally go into the kitty, if I might use that term. And in addition to that, imports would add approximately $10 million a year.

So we are talking some $15 million extra a year. I am sure that the gentleman would agree with me, for a nationwide TV advertising campaign, that is not going to go very far. But it is significantly further than where we are today.

Mr. PICKLE. You say you would make it mandatory, with no refunds, so that you could have a larger sum for research and advertisements and whatnot?

Mr. HUCKABY. Yes, the gentleman is absolutely correct. These funds go for research and development as well as advertising. And the fund would be significantly expanded.

Mr. PICKLE. And you are saying that 43 of the 44 organizations in the country who deal with cotton approve of that approach?

Mr. HUCKABY. Yes, they have.

Mr. PICKLE. I will be interested in hearing some of the witnesses. I understand some of the groups in my State do not approve, and I am surprised to hear it. But I would be anxious to hear what their arguments are.

Mr. HUCKABY. Yes, I understand the National Cotton Council, which is the umbrella organization for all of the cotton organizations, will be testifying later on. They have also testified before the Agriculture Committee.

Mr. PICKLE. Thank you, Mr. Huckaby.

Mr. GIBBONS. Thank you, Mr. Huckaby. We appreciate it very much.

[By subsequent unanimous consent, Mr. Anthony's statement was ordered printed at this point in the record:]

STATEMENT OF HON. BERYL ANTHONY, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. CHAIRMAN. The Cotton Research and Promotion Program Act of 1987 is designed to further strengthen a successful promotion program which has been conducted for nearly 20 years. On two occasions, U.S. cotton producers have voted overwhelmingly to collect an assessment on each bale of domestically produced cotton and to dedicate those funds to a generic program designed to increase the consumption of cotton products in the United States. Our producers recognized that they would have to make a collective effort to promote cotton consumption because they could not do so on an individual basis. As a result of this program, cotton's share of the domestic fiber market is nearly 40 percent—a significant increase over the 24 percent projected by the trend of the 1950's and 60's. Their program has been an unqualified success for the cotton producers, and indirectly benefits the economy through the increased farm income, increases in tax revenues and a reduction in federal farm program expenditures.

For the record, let me clarify that this legislation simply authorizes the Secretary to conduct a referendum among cotton producers—there would be no change to the existing program unless a majority of cotton producers approve this referendum.

A major concern of some of my colleagues is whether this proposed legislation is consistent with GATT, because of the contention that importers do not benefit from this program to the same extent as domestic producers. This is an inaccurate assessment: Import statistics indicate that the foreign share of net domestic cotton consumption has risen from less than 15 percent in 1973, to 41 percent in 1987. This 41 percent of the market-development program would accrue to importers, and thus would be consistent with our fair trade policy. In addition, this legislation clearly provides for the assessment rate to be equal for domestic and imported products alike.

There also seems to be concern that some of the cotton in imported products is of U.S. origin and consequently would be assessed twice. I believe most producers would agree that the double assessment is undesirable—they would want to reward their best export customers. However, given the nature of the international trade in yarns, fabrics and apparel, and accepting the fact that U.S. cotton is indistinguishable from other growths in finished products, I believe the elimination of the double assessment could create more administrative headaches than the volume merits.

In conclusion, Mr. Chairman, I believe we should act favorably on H.R. 1622 so a highly successful program can be strengthened and all who benefit can participate in funding the impartial promotion of cotton products. The program requires no federal financing and could actually reduce government outlays.

This program has clearly been a successful endeavor by the domestic cotton producers to expand their market-share, and much of this is due to the initiatives undertaken by the industry. Therefore, I support the continuation of this program as an industry approved initiative, and oppose the suggested alternative of imposing an excise and derivative tax. This would unnecessarily eliminate the control and support which domestic cotton producers currently give the program. In other words, our producers should be given the opportunity to vote on the changes in the assess-

ment program and authority for the Secretary to conduct periodic referenda in the future should be preserved.

Mr. GIBBONS. Before we go on, I have a letter here from the USTR concerning this subject, which I would ask unanimous consent to place in the record at this time. Is there objection?

[No response.]

Mr. GIBBONS. Without objection, it is so ordered.

[The letter follows:]

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

November 16, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Office of the United States Trade Representative opposes enactment of H.R. 1622 because it is our belief that it violates Article III.2 of the General Agreement on Tariffs and Trade (GATT).

H.R. 1622 would levy an assessment on imports of upland cotton and on imported products containing cotton to help defray costs of research and promotion currently borne solely by U.S. producers of upland cotton.

The legislation would discriminate against imports, because certain categories of domestic cotton are exempt from the assessments, whereas all categories of imported cotton would be included. Thus, the more favorable treatment provided to domestic producers would likely be considered a violation of Article III.2 of the GATT. Article III.2 states:

> The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favorable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use.

Moreover, imposing assessments on imported cotton and cotton products would be unfair. Imports of upland cotton and cotton containing products are limited by stringent quotas. Therefore, imports could not possibly benefit from any research and promotion activities to the same extent as domestic cotton producers could.

Finally, we are very concerned about the implications legislation such as this could have on our exports were other countries to copy it. The United States is a large net exporter of cotton. If foreign users of U.S. cotton decided to follow our example, U.S. cotton producers would be net losers. It could also invite the Japanese to assess our beef exports or the Canadians, our poultry and egg exports. Exports of these products are restricted by quotas in the importing country. Legislation of this type could pave the way for countries to assess fees on processed products containing only small amounts of the product to be promoted or products whose identity might be completely different from the raw material being promoted, for example, beef in vegetable soup or wheat in cookies.

The Office of Management and Budget advises that there is no objection to the submission of this letter from the standpoint of the Administration's program.

Sincerely,

Clayton Yeutter

Mr. GIBBONS. Our next witness is from the U.S. Department of the Treasury, Mr. Barreda. He is accompanied by some distinguished gentlemen from the Agriculture Department, Mr. Moore and Mr. Rathell.

Mr. ANTHONY. Mr. Chairman, I would like to ask unanimous consent to have my statement inserted in the record after Mr. Huckaby's testimony.

Mr. GIBBONS. Certainly. Without objection, so ordered.

Is the Department of Treasury ready to go forth.

Mr. BARREDA. Yes, Mr. Chairman.

Mr. GIBBONS. Please be as brief as possible. We have got lots of witnesses and not much time.

STATEMENT OF WILLIAM BARREDA, DIRECTOR, INTERNATIONAL TRADE POLICY, OFFICE OF THE ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF THE TREASURY, ACCOMPANIED BY JESSE MOORE, DIRECTOR, COTTON DIVISION, AGRICULTURAL MARKETING SERVICE, U.S. DEPARTMENT OF AGRICULTURE, AND GERON RATHELL, SPECIALIST, TOBACCO, COTTON, AND SEEDS DIVISION, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. BARREDA. I will be very brief, Mr. Chairman.

I appreciate the opportunity to present the administration's position on H.R. 1622, a bill which would permit the voluntary contributions by cotton producers to be made mandatory and which would establish an equal fee on imported cotton and cotton products.

The administration opposes the bill.

Mr. GIBBONS. What did you say?

Mr. BARREDA. The administration opposes the bill, Mr. Chairman.

The main issue presented by H.R. 1622 to your committee, as you discussed in your opening statement, Mr. Chairman, concerns the proper use of Government powers. Should the Federal Government use its power to mandate the payment of a fee, or tax, by all cotton producers if a majority of them assents?

And is it appropriate to do so if the proceeds are to be spent on product research and market development, ordinarily private sector activities since the benefits of that activity generally are limited to that private sector?

The administration understands the special circumstances of individual farmers competing with large fiber companies in funding research and market promotion. It therefore supports the current program whereby the Federal Government helps collect voluntary contributions and helps organize the institution that handles the research and market development spending.

We believe, however, that it is inappropriate use of Government power to require mandatory contributions, by producers and importers, to fund research and promotion primarily to benefit one sector. That would extend Government involvement in the economy while the administration's emphasis is on reducing the Government's role in this economy.

A second point with respect to this bill relates to the justification for the inclusion of imports. The justification, that imports are "free riders" in that they benefit from producers financed research and promotion, should be qualified by the recognition that imports are subject to quotas.

Imports of raw cotton are subject to tight quotas. Most imports of cotton products, textiles and apparel, are also subject to quotas. These quotas have been tightened in recent years. The ability of imports to share in the growth of the U.S. market for cotton is therefore limited, although I realize not as limited as some of the members of this committee wish.

There are three other problems with the bill as now drafted, that I would like to signal, Mr. Chairman. First, the bill appears inconsistent with our GATT obligations on one narrow ground. GATT requires nondiscriminatory tax treatment. The current bill excludes domestic extra long staple cotton from the fee but includes imports of long stapled cotton. Although only about 2 percent of U.S. cotton production is extra long stapled, I believe GATT would find against us on this technical point.

Second, it is my understanding that the bill does not define cotton products. Is the cotton in a car, such as the seat covers, to be covered by the bill? Or does the bill intend to only cover cotton textile and apparel subject to the Multi-Fiber Agreement?

It would be much easier, and cheaper, to collect the fee, should the Congress decide to pass it, if the product coverage were specified by tariff line.

Mr. GIBBONS. You ask the question as to what it covers. I notice here it covers ornamented or laced men's and boy's underwear. [Laughter.]

Mr. BARREDA. I will not comment on that, sir.

Mr. GIBBONS. I will not either.

Mr. BARREDA. The third point I would like to bring up, as was said in the earlier testimony, is that the Customs Service would be asked to collect the fee on the imports. If the intent of the bill is not to increase Government expenditures, the bill should specify that the Customs Service will be reimbursed for its costs by the Cotton Council.

I was brief, Mr. Chairman. I will be happy to try to answer your questions.

[The statement of Mr. Barreda follows:]

Statement by William Barreda
Director, International Trade Policy
U.S. Department of Treasury

Mr. Chairman and members of the Committee, I appreciate the opportunity to explain the Administration's position on H.R. 1622, which would direct the collection of fees on imported cotton and cotton products for the purpose of funding research and promotion. The Administration is opposed to the bill.

The bill would broaden the current law which authorizes the collection of fees -- $1.00 per bale equivalent plus 0.6 percent of the value -- on domestic raw cotton marketed in the United States. Currently, these fees are paid by cotton handlers, on behalf of U.S. cotton growers, to the Cotton Board which then uses the funds for research and promotion. The program was approved by over two-thirds of the producers in a national referendum two decades ago. The collection of fees is enforced by the U.S. Department of Agriculture through its right to bring suit against those who do not collect and pay the fees to the Cotton Board. Despite this force of law, the current program is considered voluntary by Government and industry because of the provision for refunds to those growers who apply for them.

The bill under consideration would make several changes in the current law that we believe alter the voluntary, self-help, cooperative nature of the program.

First, the program would no longer apply just to raw cotton produced in the United States, but would be expanded to cover raw cotton imports plus all the cotton contained in the large number of textile products which are imported. This would significantly expand the authority of producer groups to assess the raw material content of products all the way to the final product and to assess foreign-produced cotton as well.

Second, the voluntary nature of the program would be removed by a simple majority vote of domestic producers. Those growers who do not support the Cotton Board's research and promotion activities would no longer be able to apply for a refund. Likewise, foreign producers will have no right to request a

refund. Consequently, the payment no longer appears to be a voluntary self-help contribution.

Third, the Government will likely become actively involved in the collection of the assessments on imported products. Although the details of the program have not been worked out, we would expect the Cotton Board to request the U.S. Customs Service to collect the fees at the port of entry and pass these to the Cotton Board. Such arrangements already exist for beef, pork, and honey, as required by the Food Security Act of 1985, passed by Congress over the Administration's objections. We recognize that Customs may be reimbursed for the cost of these services, but this activity does require additional personnel, new rules and regulations, and another inconvenience to be imposed on the Customs Service. However, the current bill does not provide authority for Customs to collect these fees, nor does it provide reimbursement to Customs for the cost of collecting the fees. The Committee should be aware that Customs' calculations indicate collection costs of anywhere from $700 thousand to $1.2 million a year depending on whether the legislaltion is tariff item specific or not. The Department of Agriculture devotes 1-2 people to the current program.

This bill has further implications for U.S. international trade policy. We believe the assessment on imported cotton products could be challenged as discriminatory under GATT rules on one narrow point. It is our understanding that domestic producers are assessed only on their upland cotton production; extra long staple cotton, which accounts for 2 percent of U.S. production is not assessed. The provisions of H.R. 1622 call for assessing <u>all</u> cotton contained in imported cotton products. Consequently, the fee would be applied to imported but not to domestic longstaple cotton, an apparent violation of GATT article III.

We believe the justification for the proposed assessment on imported cotton products -- imports benefit from the producer financed research and promotion program -- is strained. Most cotton products are subject to quotas incorporated in bilateral agreements, so the ability of importers to participate fully in

any increased demand brought about by the research and promotion programs financed by these fees is limited. U.S. import quotas on raw cotton permit only about 40,000 bales of cotton to be imported compared to U.S. production of over 13 million bales this year. Meanwhile, our exports are usually in a range of 5-7 million bales although they sometimes fall outside this range.

One of the justifications for H.R. 1622 is to shift some of the burden of financing the Cotton Board's activities onto so-called "free riders" -- those who benefit from the programs but are not obligated to contribute. The Committee may want to identify where the line should be drawn in attempting to assess all beneficiaries of the program. Will only products containing a majority of cotton, by weight or value, be assessed or will auto and furniture cushions or 20 percent cotton blends also be assessed?

The Agriculture Committee's report indicates that the Cotton Board's budget is about $18 million which is funded by a fee of $1 per bale plus 0.6 percent of the value of cotton sold. Based on $.65 per pound, the producer contributes about $2.87 per bale, a little less than 1 percent of the farm sales price. Using USDA's estimate of about 4 million bales of cotton contained in imported cotton products, we estimate that fees collected on imported cotton would total over $11 million, permitting a substantial increase in the Cotton Board's budget. In addition, the termination of refunds would add another $10 million to available funds, enabling a doubling of the budget.

We have estimated that the Customs Service already is collecting $8-10 million from assessments on imports of meat and honey products. If these programs were to proliferate so that eventually a 1 percent charge on all U.S. agricultural imports is collected, Customs would be collecting $200 million. And this does not include all the manufactured products -- furniture, candy, shoes, paper products, etc. -- containing agricultural products. This sum would be in addition to the more than $300 million already being collected by various groups on domestically produced commodities. In addition, another $200 million,

including $140 million of U.S. Government funds, are spent in promoting products overseas.

In closing, I would like to raise a question about whether the U.S. Government should be actively helping to broaden and proliferate these private promotion programs. We have seen a steady expansion of these programs over the years, which rely on Government personnel for various administrative and accounting functions, on the Government to enforce the collection of fees and the regulation of spending programs, and on Government financial contributions to cooperator programs. Programs which started out with perhaps a million dollar budget have grown by leaps and bounds. The dairy promotion program, for example, now collects nearly $200 million, requiring a staff of 3-5 people in USDA to handle various regulations on how the money is spent. All this contributes to an expanding Government bureaucracy when great effort is being made to reduce Government interference in the private economy.

Thank you Mr. Chairman. I will be happy to answer your questions.

Mr. GIBBONS. Mr. Frenzel, do you have questions?

Mr. FRENZEL. Yes, I want to question on that last item. The bill does not provide that the Cotton Council will pay you for bill collection, is that correct?

Mr. BARREDA. That is our understanding of it.

Mr. FRENZEL. If it is passed, you would insist on that?

Mr. BARREDA. Mr. Frenzel, as you know, we oppose the bill but that would make it less objectionable, on that one narrow point, to the Customs Service and Treasury.

Mr. FRENZEL. I would like to pursue that a little bit farther. Every time the President produces an authorization or budget request for the Customs Service, it is less than this committee likes. This committee always boosts it up and yet we always say that you do not have enough employees.

You have some other funds that are paid to you for Customs employee services. My question is, even if you are paid for them, is this going to divert Customs agents or Customs resources to work that Customs should not be doing and is not the best performer of?

Mr. BARREDA. It is a difficult question, Congressman, because obviously the Customs Service would have additional resources, if the committee so decides, to do this practice. It is a very large program and there was reference earlier to the beef and the honey and the pork programs.

The number of entries and the number of tariff lines involved in those programs is relatively small. If one is going to include all textile and apparel that has cotton in it, there is a massive increase. The Customs Service does think you will be talking of over $1 million to administer this program.

Mr. FRENZEL. $1 million per what?

Mr. BARREDA. Per year, to collect the fee.

Mr. FRENZEL. If you could manage this for $1 million, we will give you the Houdini Award of 1988. Do you know how many items come into this country that have cotton in them? Thousands. Tens of thousands.

Mr. BARREDA. Does Customs want to comment?

The qualification is that this is a quick estimate that we have made. You are absolutely right, of course. You are talking massive number of entries, particularly if it is any product containing cotton, not just textiles and apparel. Are we supposed to get the cotton in the car?

The Customs Service tells me they do not know.

Mr. FRENZEL. Well, I do not know either. This committee is supposed to have some responsibility over the operations of Customs. Despite our differing opinions on tax policy, there has been no more contentious item before this committee than to do a little more or a little less or how to rearrange the Customs officials or how to deal with overtime or what Customs officials should be doing.

We have really had a problem with it. I will say, as one member of the committee, I really want a little better idea how you are going to handle this before I want to walk into this swamp.

Mr. BARREDA. We would like the opportunity to submit a letter to you on that, to the committee.

[The following was subsequently received:]

DEPARTMENT OF THE TREASURY
U.S. CUSTOMS SERVICE
WASHINGTON, D.C.

December 1, 1987

MAN-6-01:CO:T:E DB

Dear Chairman Gibbons:

We are grateful to you and the Committee for recognizing that H.R. 1622, which would levy a fee on imported cotton and the cotton content of imported products, would affect Customs, and appreciate the opportunity to comment.

As you know, the Administration has detailed its opposition to the bill in statement and testimony before the Committee. Administratively, Customs is particularly concerned about the precedent involved, fearing that further proliferation of fees such as now in existence for beef, pork, and honey, will overwhelm its administrative capabilities and dilute its enforcement posture. Further, a recent report by a special GATT panel that finds another U.S. user fee inconsistent with GATT obligations likely renders other such fees, including the proposed cotton fee, internationally indefensible.

If, however, H.R. 1622 should become law its impact on the Customs Service would be significant and potentially major. The final form and intent of the legislation, if passed, will determine the actual impact on Customs. Following are issues of relevance to Customs in administering the proposed cotton fee, and possibly to you in your evaluation of such legislation.

Identification of the products intended to be subject to the fee is critical to its administration. The term "products containing cotton" obviously could include an enormous number of imported products known by a variety of terms (e.g., apparel, fabric, furniture, headwear, writing paper) and classifed throughout the existing Tariff Schedules. Tremendous specialized manpower resources would be required to review and identify, from the universe of products potentially containing cotton, those products actually containing cotton.

Significant additional resources would also be required to determine and selectively verify the actual cotton content/value of products identified as containing cotton blends. Because of the complexity of the proposed fee, Customs existing Automated

Commercial System (ACS) could accept deposit of the fee but could not be programmed to compute or ensure the accuracy of the amount deposited, or enforce requirements of the bill. Therefor, any applicability or content/value determinations would have to be manually accomplished, again requiring specialized personnel.

The sheer volume of imports of cotton and products containing cotton dictates that the minimum cost to Customs to collect such fees would be significant, far exceeding our costs in collecting existing beef, pork, and honey fees. We estimate that H.R. 1622 would cost Customs at least $700,000 per year to simply accept and forward such fees on those products currently identified upon entry by a Commerce Department cotton category number. [In comparison, the FY 86 agreement between USDA and Customs for pork and beef fee collections was based on a cost of $131,658.] It is important to note that many imported products containing cotton need not be identified by a cotton category.

We stress that the preceding estimate of a $700,000 cost to Customs entails the minimum involvement on our part, basically in a role of collecting and forwarding fees voluntarily deposited on those products currently known to be subject to cotton-restraint agreements. The identification, review, and verification issues previously noted would each significantly add to our costs. The cost to Customs could well exceed $5 million, depending on the final form and intent of this proposed bill.

One final consideration in this proposed legislation is the applicability of the fee to U.S. origin cotton contained in imported products. Committee members expressed obvious concern that the proposed fee be applied only once to U.S. cotton, at the production level, and be exempt when reimported after exportation. From Customs perspective, such exemption would be unenforceable. Origin documentation could be required, with resultant impact on Customs and the trade, but we are unaware of any reliable method of physical verification of origin of cotton used in the production of goods. From past experience, such an exemption could become a major loophole, providing great potential for circumvention of legislative intent and enforcement efforts.

Thank you for your interest in the impact of H.R. 1622 on Customs. We value this opportunity to address issues of relevance to our Service. Please do not hesitate to call me or Mr. David Gencarelli of my staff if you have additional questions.

Sincerely,

Michael H. Lane
Deputy Commissioner

The Honorable
Sam Gibbons, Chairman
Trade Subcommittee
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

UNITED STATES GOVERNMENT
Memorandum

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

DATE: NOV 24 1987

FILE: ADM-1:CO:T:E:E c

TO : Associate Commissioner
Congressional and Public Affairs

FROM : Acting Assistant Commissioner
Office of Commercial Operations

SUBJECT : H.R. 1622; supplemental impact figures

As requested by Mr. Gencarelli on 11/23, attached are detailed impact estimates arising from the proposed cotton fee. These figures supplement the entry and cost estimates supplied, with other impact issues, to Mr. Gencarelli on 11/20. A copy of that submission is attached for information.

Victor G. Weeren

Attachments (2)

Cotton3

11/24/87

The following statements detail the potential impact of H.R. 162 on Customs, assuming its passage in spite of Administration opposition. The indefinite nature of the proposed legislation requires a progressive analysis dependent upon the final form an intent of the legislation.

A. Fee acceptance, accounting processing, and forwarding; no calculations or verifications performed.

1. Minimum impact on Customs, for only those products requiring a cotton category(1) at the time of entry:
   * $708,800 cost - 443,000 entries

2. Impact on Customs, to include products detailed in A.1., and products containing a cotton blend but not requiring a cotton category:
   * $1,077,584 cost - 673,490 entries

B. Processing as above (A.), but including review and verification of cotton content and value(2).

3. Impact on Customs, to include only those products requiring a cotton category at the time of entry:
   * $2,997,338 - 443,000 entries

4. Impact on Customs, to include products requiring a cotton category and products containing a cotton blend but not requiring a cotton category:
   * $5,152,419 - 673,490 entries

(1) existing Dept. of Commerce requirement to identify, at the time of Customs entry, those products subject to cotton-restraint agreements

(2) selective review and verification; to include Import Specialist review of entry information, requests for additional documentation or information, verification, lab analysis

*These figures comprise additional programming support and personnel increases (entry aids, cashiers, etc.) at high volume ports. Overtime for smaller ports.

11/20/87

H.R. 1622 Impact issues:

ESTIMATED ENTRIES

- Projected FY86 entries of merchandise subject to the beef and pork fees, upon which the yearly reimbursement agreement was based, totalled 81,450. FY86 entries of selected textile products, including but not limited to wearing apparel, totalled 1,078,000, of which 40% (431,000) contain or likely contain cotton in some proportion.

MINIMUM COST TO CUSTOMS

- Based on first-half FY87 entries of the textile products detailed above, H.R. 1622 would subject Customs to an estimated minimum yearly cost of $700,000 (460,800 entries) to simply accept and forward such cotton fees. That cost would not include any verifications or calculations by Customs personnel. [The reimbursement agreement for Customs' collection of 1986 beef and pork fees totalled $131,658.]

PRODUCT IDENTIFICATION

- Articles containing cotton could include an enormous number of products which are classified throughout the present TSUSA which are not even identified as "textile" (i.e., furniture with cotton stuffing, cars or trucks with cotton seat covers, writing papers and paper products containing cotton fibers, etc.).

VERIFICATION

- Customs existing automation system (ACS) would be unable to perform any verifications of cotton content or value declared on Customs entries. Such automated verification capability would be prohibitively expensive and probably impossible.

- Any desired cotton value or content verifications would require at least one extra step of manual review with resultant major cost increases and a potential for diverting enforcement resources.

- Many products contain an unknown or unspecified amount of cotton which would require additional sampling and testing solely for fee assessment, again with resultant cost increases and the potential for diverting enforcement resources.

- Verification of US cotton content in imported products would be impossible for Customs, either by automation or manual review.

Mr. FRENZEL. I appreciate it. Thank you.

May I ask, does anybody know what we are going to charge for each pair of pajamas or each sock, or whatever?

Mr. BARREDA. As I understand the bill, we would apply a formula to the cotton content as specified on the label. The bill proponents say it would be about one-third of a cent per shirt. There is a lot of administration for a third of a cent.

Mr. FRENZEL. You would have some formula by which you would reduce it to the weight and cotton content and that is supposed to equate to a buck a bale or whatever we are paying domestically?

Mr. BARREDA. Yes, sir.

Mr. FRENZEL. Would there be some sort of a rebate on U.S. cotton which was fabricated outside the United States?

Mr. BARREDA. I am glad you raised that question, Congressman, because the bill as now written does not.

Mr. FRENZEL. Under the bill, would we tax that twice?

Mr. BARREDA. That is right, so the question is is that a GATT problem? We have wrestled that and have not come to a conclusion yet, which is why I did not raise it. It is rather unusual for a country to collect a fee on its exports and then when that product is incorporated into an import to collect it again.

Would the GATT decide that we are only taxing ourselves twice, and therefore if we want to do that it is up to us, or would they see it as a violation of the GATT principle against double taxation? The fee was already paid domestically, why should the import have to pay it again?

Mr. FRENZEL. I should think the American producer would be somewhat upset.

Mr. BARREDA. That is true. There is a point, it is a very small fee.

Mr. FRENZEL. It seems to me it would undermine his market to a tiny degree, perhaps.

Mr. BARREDA. It would be consistent with GATT to exclude exports from this fee, but that would sharply reduce the revenue produced.

Mr. FRENZEL. Do you have somebody in your group that tells us what the Cotton Council does?

Mr. BARREDA. I think that will be the next group.

Mr. FRENZEL. Department of Agriculture does not know?

As I understand, it does promotion and research.

Mr. MOORE. The Cotton Council is an umbrella organization of the entire cotton industry.

Mr. FRENZEL. Who spends the money?

Mr. MOORE. The Cotton Board.

Mr. FRENZEL. Sorry. Does it do research and promotion?

Mr. MOORE. Yes. Not directly. It contracts with another organization for these functions.

Mr. FRENZEL. I think we understand promotion but I do not understand what kind of research it does.

Mr. MOORE. Textile research and agricultural research both.

Mr. FRENZEL. And I presume, under this bill, it will be shipping out that information to foreigners and asking them to come in and observe their operations?

Mr. MOORE. Yes, in fact, that now happens under the current program.

Mr. FRENZEL. So it is not anticipated that that program has to be changed at all?

Mr. MOORE. No, sir.

Mr. FRENZEL. Mr. Chairman, I may have some other questions, but I can make them later. I thank the panel for its testimony.

Mr. GIBBONS. Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman. Mr. Barreda, if the Reagan administration were in favor of trying to help the domestic cotton industry, do you think that you could devise a more simplified way of collecting the amount of money that would be requested in this piece of legislation so that it would not create the administrative burdens which you have indicated to Mr. Frenzel that you think would be created?

Mr. BARREDA. I think there are two questions, Mr. Congressman. The first is, as I have mentioned earlier, is whether the appropriate role of Government is to use its powers to make mandatory collection of a fee to be spent for research and market promotion by private enterprise.

Mr. ANTHONY. Answering that question, would this program be standing alone if it were passed, in that regard?

Mr. BARREDA. As I said, there are three other programs that include coverage of imports that were passed over the administration's objections.

Mr. ANTHONY. So this would not be breaking new ground?

Mr. BARREDA. It would not in that sense. It is, in the sense of the amount of manufactured products that have an input that would be covered. Meat and honey are rather more limited in how far up the production stream you go. This one is going much further and it is a much bigger one.

And the administration, as I said, did oppose the other three. So we did not accept those as a precedent. We remain opposed to this type of program.

Mr. ANTHONY. So you opposed it on the original policy basis?

Mr. BARREDA. That is right.

Mr. ANTHONY. So the fact that it applies to 300 items really does not have anything to do with your argument. Are you opposed to it because it applies to 300 items versus beef applying to 30?

Mr. BARREDA. We are opposed to it on two reasons. One is the principle, as I said. The other is, where should the line be drawn? And we think the line should be drawn now.

Mr. ANTHONY. So in other words, everything that comes before this committee ought to draw a line and say, if it is over 30, I should vote against it, and if it is below 30, I ought to be for it. In other words, I ought to look at the numerical numbers and the administrative burdens of the numbers and not the policy. That is poppycock.

Mr. BARREDA. Mr. Congressman, I thought I said we opposed it on principle. And I think this program goes beyond the others, which is a good reason, I think, to also oppose——

Mr. ANTHONY. I accept that, if you are opposed to it on principle, that is fine. But what you have also found is that the Congress disagrees with your principle. And the Congress in other areas has

said, this is going to be the policy of the United States, so why do you not listen? So why do you not try to work with us?

Let me phrase two more questions. How about a dedicated excise tax to be put into a trust fund, would the administration support that?

Mr. BARREDA. It sounds to me like a tax increase.

Mr. ANTHONY. Well, the President is for a tax increase. He has already been at the budget summit saying that he will take $10 billion in tax increases, so what is wrong with that?

Mr. BARREDA. This would be a tax increase that would not reduce the deficit, as I understand the way you posed the question.

Mr. ANTHONY. It would be a dedicated trust fund. So in other words, you would have a dedicated excise tax specifically to raise the same amount of money to go into a trust fund, to do the very same thing that other trust funds are collecting moneys for in the Government. Just a simple question, would you be opposed to that on principle?

Mr. BARREDA. Yes, sir.

Mr. ANTHONY. This question is addressed to the USDA witness. Assuming we cannot get this bill, we cannot get the dedicated trust fund, then we turn to the general funds. Would the administration be supportive of going directly to the general funds as part of an annual appropriation for the USDA programs for activities that would be covered under this bill?

Mr. MOORE. Sir, we are here only in a technical capacity and I am not authorized to answer that type of question.

Mr. ANTHONY. So the answer is no. In other words, you would not be supportive of general revenue funds. I mean, I take it—I know what your answer is. You can sit there and dance around it all day long.

So what I hear you coming in and saying to the cotton industry, and the State of Arkansas, and the United States, is that you do not want to offer them any help or relief. I mean, that is very clear. But what disturbs me is that you can look across the board and see that this administration has imposed protectionist measures in many other areas—more recently against Brazil.

So it just disturbs me a little bit when you say on an ad hoc basis you are willing to protect, yet in this particular area you are not willing to look at a broader program so that importers are forced to pay their fair share. It seems to me that you are taking a position in which you want importers to get a free ride, and I just have a hard time buying that. I just ask you to reconsider your position.

I yield back.

Mr. GIBBONS. Thank you very much, sir. Appreciate it. Next witness, from the National Cotton Council of America, Mr. Cline, and from the Cotton Board, Mr. Hansen.

While they are taking their places, Mr. Anthony, let me partially correct myself. I said over 300 items. On closer examination, those are just major items. There are about—I would guess there are around 3,000 items, when I look at it more closely. Now that is just a guess. I cannot tell you how many—the information I have does not go to that much detail.

Gentlemen, you may proceed as you wish. Go right ahead.

STATEMENT OF LLOYD E. CLINE, CHAIRMAN OF THE BOARD, NATIONAL COTTON COUNCIL OF AMERICA, ACCOMPANIED BY FRED STARRH, DIRECTOR

Mr. CLINE. Thank you, Mr. Chairman. I am Lloyd Cline, a cotton producer from the high plains of Texas, more particularly Lamesa, Texas. I have on my left, Mr. Fred Starrh, who is a cotton producer from the State of California.

I am chairman of the board of the National Cotton Council on whose behalf I appear today. The council is the central organization of the U.S. cotton industry, representing cotton producers, handlers, processors from the Carolinas to California.

The council is here in support of H.R. 1622, which is an amendment to the Cotton Research and Promotion Act of 1966. This amendment is a highly important step to strengthen and improve the fairness of a 21-year-old, highly successful self-help program of cotton producers which has been a model for other commodity promotion efforts.

The Cotton Research and Promotion Program was enacted to provide the opportunity for tens of thousands of farmers who produce cotton to compete effectively in the highly competitive, promotion-oriented marketplace. These small businessmen were up against a few heavily financed corporations which were spending hundreds of millions each year to develop and promote man-made fibers.

By 1966, they had already reduced cotton's share of the fiber market from about two-thirds in the early 1950's, to one-half in the mid-1960's, and to less than one-fourth by the late 1970's. This market penetration was due mostly to factors related to research and promotion.

The market losses suffered by cotton were largely responsible for the high Government cotton program costs and stock ownership of the 1960's and the very early 1970's.

The 1966 act provided for a referendum of cotton producers before the $1 per bale uniform assessment it called for could be collected. The assessment was approved by more than two-thirds of the producers, and collection began with the 1967 crop.

The 1966 act was amended in 1976 to allow an increase in the assessment based on a percentage of the value of the bale up to a ceiling of 1 percent plus $1. Currently, this value assessment is six-tenths of 1 percent, and the average amount collected on each bale for 1986 crop was $2.53. The cost of Government oversight, referenda and so forth is paid for from this fee.

The program was designed to recapture lost markets, and it has been quite successful. Consumer advertising on a large scale was begun in 1973 with the introduction of the cotton seal. By the late 1970's, cotton's market share, excluding carpets and glass fiber, had bottomed out. In the 1980s, it began to rise. By 1986, it had reached 40 percent, whereas if the trend line from 1960 had prevailed, it would have been a dismal 24 percent. Cotton's resurgence is attributed almost entirely to these market development activities.

Promotion has dominated the self-help program, with those expenditures exceeding two-thirds of the current budget. Another 25

percent goes to research, designed to improve fiber quality and make cotton more acceptable to manufacturers.

In the first half of 1987, U.S. consumers were buying cotton products at a rate equal to 11.9 million bales per year—the highest level in history. Studies by both the U.S. Department of Agriculture and our own economists demonstrate that farm prices are closely correlated with the demand/supply relationships. The greater the demand in relation to supply, the greater the price. Therefore, the demand increase that can be expected from the doubling of research and promotion expenditures that would result from H.R. 1622 will almost certainly result in improved prices for cotton.

Higher cotton prices mean not only a more prosperous cotton industry that pays more taxes, it also means lower Government cotton program costs. Each 1 percentage point increase in U.S. mill consumption tends to reduce subsidy payments by about $9.4 million because of price increases. And for perspective, let me say that a 1 percent rise is equal to only about 75,000 bales.

We presented this information in considerable detail to the Congressional Budget Office for verification early this fall, and they concluded that it would indeed reduce government costs. And we would like to submit that material for the record.

Mr. GIBBONS. Yes, sir, without objection, it will be placed in the record.

Mr. CLINE. Thank you, Mr. Chairman. Earlier I mentioned that cotton consumed by the U.S. population had reached a new record in 1987, mostly due to the cotton industry's research and promotion work. Unfortunately, most of the benefit of that effort has gone not to the people who paid for it, but to foreign mills and importers who capitalized on it.

Since 1973, U.S. mill consumption plus net product imports rose the equivalent of 3.8 million bales. Cotton product imports alone climbed an astounding 3.7 million bale equivalent, or 313 percent in the same period, taking 97 percent of the growth. Even when we use the depths of the 1982 recession as a starting point, product imports took 56 percent of the growth. And it was in this later period that the government spent record amounts to shore up cotton income and curb production.

Cotton product imports have increased their share of net domestic consumption from less than 15 percent in 1973, to 24 percent in 1980, and to 41 percent in the first half of 1987. I should note here that the figures from which these percentages are calculated come from the U.S. Departments of Agriculture and Commerce and can be easily verified by your staff.

USDA studies as well as our own indicate that about 80 percent of the cotton content of product imports is foreign-grown. So foreign cotton growers as well as foreign mills and U.S. importers are getting a free ride. I would like to submit the USDA study for the record also, Mr. Chairman.

Mr. GIBBONS. All right, sir, without objection, it will be included.

Mr. CLINE. Thank you. Mr. Chairman, H.R. 1622 is designed to do no more than correct the inequity that I have just described. It would simply extend the very reasonable research and promotion assessment to the cotton content of product imports and imported

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cotton. And in order to meet GATT requirements, 53 cotton producer organizations have agreed to give up their right to obtain a refund on the assessment, as to put the U.S. producers and product imports on an equal footing. In the process, U.S. growers who not obtain refunds would join with others in funding the program, further improving the equity.

Fairness also demands that all who are assessed have a voice in how the money is spent. H.R. 1622 adds representatives of the product importers to the program's governing body.

Cost to consumers would be virtually nil. The assessment rate on a 100-percent cotton shirt would be about one-third of 1 cent. Even on a large item like a bed sheet, it would amount to less than 1 cent. Surely figures this small could not be considered barriers to trade. Actually, the overall market grown that can be expected from a greatly expanded program should make the pie larger for everyone, importers and domestic producers alike.

Questions have been raised concerning the 20 percent U.S. cotton content of product imports. The assessment is paid once by the U.S. producer, as has been mentioned, and under H.R. 1622 would be paid again by the importer or foreign manufacturer. We agree that ideally credit should be given to those who buy U.S. cotton, and if a feasible way of doing so can be found, we would be one to support it. Blending with foreign cotton, multiple changes in ownership, even transshipment among countries are common practices making proof of raw cotton origin virtually impossible. The assessment is so small in relation to product value that it should not be a significant problem.

The same sort of problem exists with the extra-long staple cotton, which is not covered by the Cotton Research and Promotion Act. But extra-long staple cotton is only 5 percent of world cotton production. Besides, U.S. extra-long staple producers voluntarily fund a separate promotion program at the rate of $5 per bale which benefits imports made from these fibers. Importers therefore cannot claim that they are being assessed without obtaining value in return.

In addition, the promotion done under the act's program does not distinguish between different kinds of cotton. Therefore, it benefits all cotton.

There are several legislative precedents for the bill. Wool, pork, beef research and promotion programs provide for assessing importers, and legislative authority exists for such in flowers also.

In summary, we have shown that H.R. 1622 is an amendment to improve an already successful 21-year-old self-help program. It increases fairness in the marketplace by extending program funding to all who benefit from it. It promises larger markets and greater prosperity for all of its participants. Its cost to the consumer is insignificant, and it saves Government money.

We believe these are solid criteria for any legislation. And we and 53 other cotton organizations respectfully urge your timely approval of H.R. 1622. Thank you, Mr. Chairman.

[The prepared statement and attachments follow:]

Statement of Lloyd Cline, Board Chairman
National Cotton Council of America
before the House Ways & Means Committee
on H.R. 1622
The Cotton Research & Promotion Program Act of 1987
November 17, 1987

I am Lloyd E. Cline, cotton producer from Lamesa, Texas, and board chairman of the National Cotton Council, on whose behalf I appear. The Council is the central organization of the U.S. cotton industry, representing cotton producers, handlers and processors from the Carolinas to California.

The Council is here in support of H. R. 1622, which is an amendment to the Cotton Research and Promotion Act of 1966. This amendment is a highly important step to strengthen and improve the fairness of a 21-year-old, highly successful self-help program of cotton producers which has been the model for other commodity promotion efforts.

The Cotton Research and Promotion Program was enacted to provide an opportunity for tens of thousands of farmers who produce cotton to compete effectively in the highly competitive promotion-oriented marketplace. These small businessmen were up against a few heavily financed corporations which were spending hundreds of millions each year to develop and promote man-made fibers.

By 1966, they had already reduced cotton's share of the fiber market from about two-thirds in the early 1950's to one-half in the mid-1960's, and to less than a fourth by the late 1970's. This market penetration was due mostly to factors related to research and promotion, since the synthetic fibers that captured most of the markets were, up to the mid-1960's, priced at three times the level of cotton, or more. In later years, cotton and synthetic fiber prices were more comparable, but cotton has rarely enjoyed a significant price edge for any length of time.

The market losses suffered by cotton were largely responsible for the high government cotton program costs and stock ownership of the 1960's and very early 1970's.

The 1966 Act provided for a referendum of cotton producers before the one dollar per bale uniform assessment it called for could be collected. The assessment was approved by more than two-thirds of producers, and collection began with the 1967 crop.

The 1966 act was amended in 1976 to allow an increase in the assessment based on a percentage of the value of the bale up to a ceiling of one percent, plus one dollar. Currently, this value assessment is six-tenths of one percent, and the average amount collected on each bale from the 1986 crop was $2.53. The cost of government oversight, referenda, etc., is paid for from this fee.

The program was designed to recapture lost markets, and it has been quite successful. Consumer advertising on a large scale was begun in 1973 with the introduction of the cotton seal. By the late 1970's, cotton's market share (excluding carpets and glass fiber) had bottomed out, and in the 1980's it began to rise. By 1986, it had reached 40%, whereas if the trend line from 1960 had prevailed, it would have been a dismal 24%. Cotton's resurgence is attributed almost entirely to market development activities rather than a more competitive price. Prices of cotton and polyester, its principal competitor, have been essentially parallel, excepting very short periods, for more than a decade.

Promotion has dominated the self-help effort, with those expenditures exceeding two-thirds of the current budget. Another 25% goes to research designed to improve fiber quality and make cotton more acceptable to manufacturers.

In the first half of 1987 U.S. consumers were buying cotton products at a rate equal to 11.9 million bales per year -- the highest level in history. Studies by both the U.S. Department of Agriculture and our own economists demonstrate that farm prices are closely correlated with demand/supply relationships. The greater the demand in relation to supply, the higher the price.

Therefore, the demand increases that can be expected from the doubling of research and promotion expenditures that would result from H. R. 1622 will almost certainly result in improved prices for cotton. Higher cotton prices mean not only a more prosperous cotton industry that pays more taxes; it also means lower government cotton program costs. Each one percentage point increase in U.S. mill consumption tends to reduce subsidy payments by about $9.4 million because of price increases. For perspective, a 1% rise is only about 75,000 bales.

We presented this information in considerable detail to the Congressional Budget Office for verification early this fall, and they concluded that it would indeed reduce government costs. I would like to submit that material for the hearing record.

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Since 1973 U.S. mill consumption plus net product imports (we call it net domestic consumption) rose the equivalent of 3.8 million bales. Cotton product imports alone climbed an astounding 3.7 million bale equivalents, or 313%, in the same period, taking 97% of the growth. Even when we use the depths of the 1982 recession as the starting point, product imports took 56% of the growth. And it was in this later period that the government spent record amounts to shore up cotton income and curb production.

Cotton product imports have increased their share of net domestic consumption from less than 15% in 1973 to 24% in 1980 and to 41% in the first half of 1987. I should note here that the figures from which these percentages are calculated come from the U.S. Departments of Agriculture and Commerce and can be easily verified by your staff.

USDA studies as well as our own indicate that about 80% of the cotton content of product imports is foreign-grown, so foreign cotton growers as well as foreign mills and U.S. importers are getting a free ride. I'd like to submit the USDA study for the record.

Mr. Chairman, H. R. 1622 is designed to do no more than correct the inequity I have just described. It would simply extend the very reasonable research and promotion assessment to the cotton content of product imports and imported cotton. In order to meet GATT requirements, 53 cotton producer organizations have agreed to give up their right to obtain a refund of the assessment so as to put U.S. producers and product imports on an equal footing. In the process, U.S. growers who now obtain refunds would join with others in funding the program, further improving equity.

Fairness also demands that all who are assessed have a voice in how the money is spent. H. R. 1622 adds representatives of product importers to the program's governing body.

Cost to consumers would be virtually nil. The assessment rate on a 100% cotton shirt would be about one-third of a cent. Even on a large item like a bed-sheet it would amount to less than a cent. Surely figures this small could not be considered barriers to trade. Actually, the overall market growth that can be expected from a greatly expanded program should make the pie larger for everyone, importers and domestic producers alike.

Questions have been raised concerning the 20% U.S. cotton content of product imports. The assessment is paid once by the U.S. producer and under H. R. 1622 would be paid again by the importer or foreign manufacturer. We agree that ideally credit should be given to those who buy U.S. cotton, and if a feasible way of doing so can be found, we will support it. Blending with foreign cotton, multiple changes in ownership, even trans-shipment among countries are common practices making proof of raw cotton origin virtually impossible. The assessment is so small in relation to product value that it should not be a significant problem.

The same sort of problem exists for extra-long staple cotton, which is not covered by the Cotton Research and Promotion Act. But extra-long staple cotton is only 5% of world cotton production. Besides, U.S. extra-long staple

producers voluntarily fund a separate promotion program at the rate of $5 per bale which benefits imports made from these fibers. Importers therefore cannot claim they are being assessed without obtaining value in return. In addition, the promotion done under the Act's program does not distinguish between kinds of cotton; therefore it benefits all cotton.

There are several legislative precedents for this bill. Wool, pork and beef research and promotion programs provide for assessing imports, and legislative authority exists for such in flowers.

In summary, we have shown that H. R. 1622 is an amendment to improve an already successful 21-year-old self-help program. It increases fairness in the marketplace by extending program funding to all who benefit from it. It promises larger markets and greater prosperity for all its participants. Its cost to consumers is insignificant. And it saves government money. We believe these are solid criteria for any legislation and we respectfully urge your timely approval of H. R. 1622.

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

October 2, 1987

Honorable E de la Garza
Chairman
Committee on Agriculture
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Congressional Budget Office has reviewed H.R. 1622, the Cotton Research and Promotion Program Act of 1987, as ordered reported by the House Committee on Agriculture on June 2, 1987. CBO estimates that enactment of the bill would reduce budget authority and outlays of the Commodity Credit Corporation (CCC) by about $3 million in fiscal year 1989 and by about $5 million per year thereafter, if the assessment changes are approved in the mandated referendum.

Under current law, domestic cotton producers pay an assessment, based on their production, to the Cotton Board to support cotton research and production activities. The Cotton Board is an industry body, and not a government agency; neither its receipts nor its expenditures are reflected on the federal budget.

H.R. 1622 would require that imported cotton and cotton products be subject to assessments at the same rate as domestic cotton, subject to approval in a referendum of cotton producers. The amount of the assessment does not affect the federal budget, and the cost of the referendum and its administrative costs would be paid by the Cotton Board. Therefore, these provisions would result in no net cost to the federal government.

If the assessment changes are approved in the referendum, about $20 million per year in additional funds would be available to the Cotton Board for promotion and research activities. It is likely that increased promotional expenditures by the Cotton Board would increase domestic cotton consumption, and therefore reduce CCC expenditures for its cotton program. If cotton consumption were to increase by about 1 percent, we estimate that CCC savings would be about $3 million in 1989 and $5 million annually thereafter.

Enactment of this bill would not affect the budgets of state and local governments.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,

Sincerely,

Edward M. Gramlich
Acting Director

The U.S. Raw Cotton Content of Textile Imports by Country of Origin, 1983

Terry Townsend,
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and
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National Economics Division

Abstract: U.S. cotton textile imports totaled 2.3 million bales on a raw fiber equivalent basis in 1983. Of this total, an estimated 500,000 bales originated as U.S.-produced raw cotton.

Keywords: Textile imports, raw fiber equivalents, foreign trade, cotton consumption, export return ratio.

Introduction

This article is the second in an annual series that provides country-of-origin detail on the quantity of raw cotton contained in U.S. textile imports. Estimates for 1982 were published in the March 1983 issue of the *Cotton and Wool Outlook and Situation* report. In addition, estimates of how much U.S.-produced raw cotton or fabric was contained in 1982 U.S. textile imports were reported in the September 1983 issue.

The methodology used in developing these estimates is essentially the same as that detailed in the two previous articles. Estimates are reported in pounds on a raw fiber-equivalent basis. Processing and manufacturing losses are accounted for so that the raw fiber equivalent can be directly converted to 480-pound bales.

U.S. Textile Imports by Country Of Origin

During 1983, the United States imported textiles containing about 2.3 million bales of cotton—an increase of nearly 25 percent from 1982 (table 16). While textiles were imported from 103 individual countries, the 34 listed accounted for over 97 percent of total textile imports.

Hong Kong continues to be the largest supplier of U.S. textile imports. Over one-fourth of U.S. cotton textile imports, or the equivalent of 602,000 bales, came from Hong Kong in 1983, compared with 490,000 equivalent bales in 1982. China, Korea, and Taiwan combined, accounted for over 30 percent of all U.S. cotton textile imports during 1983, about the same as the previous year.

U.S. imports from countries in the Western Hemisphere and Western Europe also showed moderate growth during 1983. Especially sharp increases occurred for Mexico and Brazil, where the volume of imports rose 56 and 77 percent, respectively, over year-earlier levels.

A significant volume of cotton textiles is imported from countries that purchase little or no U.S. raw cotton. In 1983, approximately 45 percent of all U.S. cotton textile imports came from countries that accounted for only about 13 percent of total U.S. exports of raw cotton.

U.S. Cotton Content of Textile Imports

An estimated 22 percent of the cotton contained in U.S. textile imports during 1983 originated in the United States (table 17). This proportion is down from an estimated 29 percent in 1982 because U.S. cotton exports declined from 6.6 million bales in 1981/82 to 5.2 million in 1982/83.

Of the 10 largest cotton textile exporters to the United States, nine have export return ratios less than 0.50. U.S. cotton accounted for less than 25 percent of Hong Kong mill use in 1982/83, down from 36 percent in 1981/82. Further, over one-half of Hong Kong's cotton fabric supply in 1982 was imported, and about 40 percent of those imports came from China—a country now using almost no U.S. cotton. Hong Kong also imports large quantities of cotton fabric from Japan and Taiwan, but those countries have export return ratios of less than 0.50 themselves. In total, only about one-fifth of the cotton in U.S. textile imports from Hong Kong during 1983 was grown in the United States.

U.S. cotton exports to China have fallen to nil, and China imports little cotton fabric. The same is true for Pakistan, India, Mexico, Egypt, Romania, Poland, and Brazil.

Between 34 and 39 percent of the cotton used in Taiwanese and Japanese mills was grown in the United States, and neither country imports large quantities of cotton textiles for processing and reexport. The majority of Taiwan's cotton textile imports originate in Japan and Hong Kong, and those countries each receive a majority of their cotton textile imports from China. Consequently,

little U.S. cotton is contained in the fabric imports of either Taiwan or Japan.

Over 80 percent of U.S. cotton textile imports from Korea are composed of U.S. cotton. Korea was the largest market for U.S. cotton exports in 1982/83, and cotton fabric imports compose only about 6 percent of Korea's fabric supply. The majority of Korean cotton fabric imports are produced in Japan.

The export return ratio for Peru is about 0.19—unchanged from 1982. Like Sri Lanka, Macau, the Dominican Republic, and Haiti, Peru imports no U.S. cotton directly, but does import cotton fabrics that contain U.S. cotton. About three-fourths of Peru's cotton fabric imports in 1982 came from the United States, and imports compose about one-fourth of Peru's cotton fabric supply. The majority of Sri Lanka's cotton fabric imports come from Hong Kong and Japan—countries

Table 16.—Raw cotton equivalent of U.S. imports by country, 1983

Country of origin	Yarn, thread, and woven fabric					Primarily manufactured products			
	Yarn	Sewing thread, crochet, knitting yarn	Woven fabric: 100 percent cotton	Woven fabric: Blends	Total semi-manufactured	Pile fabrics and mfrs.	Table damask and mfrs.	Bed clothes and towels	Gloves, hosiery and hdkfs.
	1,000 pounds								
Western Hemisphere:									
Canada	55	8	3,928	117	4,107	1	–	414	13
Mexico	2,193	6	427	67	2,693	–	–	636	6
El Salvador	2,857	–	101	–	2,958	1	–	1,326	–
Jamaica	–	–	–	–	–	–	–	–	–
Haiti	98	3	1	–	102	1	–	5	112
Dominican Republic	20	–	150	–	171	–	–	–	–
Colombia	1,149	5	4,593	113	5,860	70	–	686	20
Peru	4,864	8	17,616	298	22,776	–	–	344	–
Brazil	10,455	32	18,901	533	29,921	578	6	5,453	–
Other	1,757	1	587	72	2,517	–	–	573	98
Total	23,436	62	46,405	1,199	71,104	650	7	9,635	249
Western Europe:									
United Kingdom	187	31	1,093	84	1,396	10	–	382	10
Ireland	1	–	4	17	23	35	–	65	–
France	149	807	802	394	2,152	11	13	156	12
West Germany	395	50	1,179	243	1,867	8	3	427	11
Switzerland	14	32	544	58	648	–	3	4	24
Spain	457	3	156	187	803	–	1	47	12
Portugal	270	39	2,664	59	3,032	1	7	1,269	39
Italy	109	77	642	1,538	2,366	8	–	64	30
Other	157	53	899	925	2,035	4	56	436	38
Total	1,740	1,092	7,983	3,506	14,321	77	81	2,830	176
Eastern Europe:									
East Germany	–	–	–	–	–	–	–	–	–
Poland	–	–	2	5	8	3	–	355	–
Romania	–	–	1	5	5	–	–	–	–
Other	–	–	118	17	135	–	178	452	81
Total	–	–	120	26	147	3	178	807	81
Asia/Oceania:									
India	–	–	7,268	216	7,504	96	1	4,540	307
Pakistan	55	2	22,236	–	22,293	2,547	–	24,332	907
Sri Lanka	–	–	–	–	–	–	–	396	850
Thailand	123	2	7,965	4,675	12,765	9	–	231	494
Singapore	280	–	2,229	251	2,760	–	–	144	84
Indonesia	–	–	2,700	3,796	6,496	–	–	215	783
Philippines	–	–	6	–	6	–	–	12	1,271
Macau	–	–	23	–	23	15	–	3	275
China-Mainland	21	–	44,086	10,769	54,876	1,581	38	14,682	9,515
Korea	2,881	–	22,460	10,113	35,454	91	–	1,012	888
Hong Kong	3	1	60,394	8,898	69,296	259	–	3,213	6,814
Taiwan	7	24	33,248	15,764	49,043	2,262	–	6,119	983
Japan	1,185	44	9,956	4,204	15,388	84	136	483	1,981
Other	330	16	1,066	686	2,123	47	–	1,253	229
Total	4,884	90	213,679	59,375	278,029	6,973	175	56,616	24,981
Africa:									
Egypt	10,307	1	6,260	–	16,568	–	–	70	16
Other	511	–	19	1	531	19	–	63	1
Total	10,818	1	6,280	1	17,099	19	–	132	16
World total	40,881	1,250	274,466	64,108	380,706	7,721	438	70,087	25,383

which import cotton from the United States—and imports make up about one-half of Sri Lanka's supply. Macau trades mostly with Hong Kong and China, while the United States is the major fabric supplier to the Dominican Republic and Haiti.

Singapore imports small amounts of U.S. cotton; it imports cotton fabric mostly from Hong Kong, China, Japan, and Malaysia. Thailand, the Philippines, and Indonesia import larger quantities of U.S. cotton and have mill use return ratios between 0.39 and 0.69. Unlike Singapore, domestic production in Thailand, the Philippines, and Indonesia accounts for almost all of their fabric supplies.

Of the remaining countries, Canada is the only one with a large export return ratio—0.84. Canada imports most of its raw cotton from the United States and was one of

Table 16.—Raw cotton equivalent of U.S. imports by country, 1983—Continued

Country of origin	Primarily manufactured products						Total
	Other wearing apparel	Lace fabrics and articles	Household and clothing articles	Misc. products	Floor covering	Total primarily manufactu-	
	1,000 pounds						
Western Hemisphere:							
Canada	3,257	5	58	314	40	4,100	8,207
Mexico	10,618	18	188	428	3	11,895	14,588
El Salvador	95	2	5	6	–	1,435	4,393
Jamaica	882	–	26	–	–	909	909
Haiti	4,755	25	89	77	8	5,072	5,174
Dominican Republic	7,125	483	136	158	–	7,903	8,074
Colombia	538	2	1	4	–	1,521	7,381
Peru	412	–	541	–	–	1,297	24,074
Brazil	4,794	6	64	55	434	11,390	41,311
Other	5,278	7	193	12	3	6,163	8,679
Total	37,753	547	1,299	1,055	487	51,684	122,788
Western Europe:							
United Kingdom	975	84	88	497	351	2,378	3,774
Ireland	45	–	1	4	756	906	929
France	1,288	57	182	145	8	1,873	4,026
West Germany	455	8	208	375	152	1,646	3,514
Switzerland	46	18	21	78	10	203	852
Spain	239	2	88	47	44	478	1,261
Portugal	801	1	31	1	42	2,192	5,223
Italy	1,948	31	118	180	8	2,385	4,751
Other	732	23	139	181	1,462	3,070	5,104
Total	6,530	225	873	1,509	2,831	15,132	29,453
Eastern Europe:							
East Germany	243	–	–	–	–	243	243
Poland	1,904	–	–	–	–	2,263	2,270
Romania	5,221	–	3	–	–	5,224	5,229
Other	722	–	217	33	17	1,899	1,834
Total	8,089	–	220	33	18	9,429	9,575
Asia/Oceania:							
India	22,311	2,776	1,323	269	2,734	34,357	41,861
Pakistan	10,817	–	1,301	47	39	39,990	62,283
Sri Lanka	15,087	1	6	–	–	16,343	16,343
Thailand	9,546	26	47	93	52	10,498	23,263
Singapore	20,014	–	–	3	3	20,250	23,010
Indonesia	17,480	22	20	3	–	18,523	25,019
Philippines	22,162	257	334	541	11	24,586	24,594
Macau	13,479	2	5	118	–	13,898	13,921
China-Mainland	78,049	1,527	2,024	2,973	268	110,657	166,533
Korea	34,553	49	583	903	43	37,922	73,377
Hong Kong	205,059	127	2,523	2,390	21	220,208	289,504
Taiwan	56,699	291	428	3,612	32	70,625	119,668
Japan	25,088	51	175	537	791	29,165	44,553
Other	13,931	55	821	27	181	16,344	18,467
Total	544,276	5,183	9,391	11,717	4,174	663,366	941,395
Africa:							
Egypt	45	–	–	–	7	138	16,706
Other	329	–	28	1	9	649	1,180
Total	374	–	28	1	16	787	17,886
World total	597,428	5,957	11,855	14,335	7,526	740,631	1,121,337

– =0

Totals may not add because of rounding.

the few countries to increase cotton imports in 1982/83. The United States is also the largest textile supplier to Canada.

During 1984, the export return ratio will probably increase. U.S. cotton exports during 1983/84 may rise 1.6 million bales to about 6.8 million, while cotton textile imports will probably increase much more slowly than in 1983. If the ratio for 1984 equals 0.27, about 700,000 bales of 1983/84 U.S. cotton exports would be returned as textile imports.

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Table 17.—Export return ratios for U.S. textile imports in 1983

Textile exporting country	Cotton imports from the U.S.	Domestic mill use	Mill use return ratio	Domestic production share of fabric supply	Imported fabric return ratio	Imported fabric share of fabric supply	Weighted export return ratio	Raw cotton equivalent of U.S. imports	U.S. cotton exports returned
	1,000 480-lb bales				*Percent*			*1,000 480-lb bales*	
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
Hong Kong	158	735	0.232	0.427	0.195	0.573	0.211	603	127
PRC	20	18,200	.001	1.000		0	.001	345	0
Taiwan	378	1,100	.344	.941	.152	.059	.333	249	83
Pakistan	0	2,450	0	1.000		0	0	130	0
Korea	1,322	1,565	.845	.944	.321	.056	.816	153	125
India	0	6,250	0	1.000		0	0	87	0
Japan	1,286	3,290	.391	.871	.147	.129	.360	93	33
Peru	0	232	0	.757	.784	.243	.193	50	10
Singapore	13	75	.173	.097	.145	.903	.148	48	7
Brazil	0	2,600	0	1.000		0	0	86	0
Thailand	197	505	.390	.962	.199	.018	.387	48	19
Philippines	72	105	.686	.908	.196	.092	.641	51	33
Indonesia	268	514	.521	.990	.205	.010	.518	52	27
Sri Lanka	0	40	0	.488	.167	.512	.085	34	3
Macau	0	0	0	0	.090	1.000	.090	29	3
Mexico	0	625	0	.994	.667	.006	0	30	0
Domin. Rep.	0	10	0	.594	.842	.406	.342	17	6
Egypt	0	1,370	0	1.000		0	0	35	0
Canada	238	253	.941	.766	.466	.234	.835	17	14
Columbia	9	215	.042	.987	.621	.013	.050	15	1
Haiti	0	10	0	.732	.665	.268	.176	11	2
Romania	0	515	0	.949	.012	.051	0	11	0
Portugal	40	660	.061	.950	.095	.050	.063	11	1
Italy	105	980	.107	.820	.161	.380	.128	10	1
Poland	0	650	0	.964	.010	.046	0	5	0
France	45	765	.059	.572	.109	.428	.080	8	1
W. Germany	163	928	.176	.674	.090	.326	.148	7	1
El Salvador	0	50	0	.943	.360	.057	.022	9	0
Total	4,314	42,692					.22	2,244	497
World	5,207	62,132					.22	2,336	514

Mr. GIBBONS. Thank you, Mr. Cline. The committee will recess temporarily while we go vote. We will be right back. We are sorry to interrupt you like this, but somebody is harassing us over there, and we have got to go.

[Recess.]

Mr. GIBBONS. The committee will resume its hearing. Our next witness is Mr. Hansen of the Cotton Board.

STATEMENT OF JAMES B. HANSEN, CHAIRMAN-ELECT, THE COTTON BOARD, ACCOMPANIED BY PHILLIP C. BURNETT, PRESIDENT

Mr. HANSEN. My name is Jim Hansen, and I am chairman-elect of the Cotton Board. Sitting to my right is Phil Burnett, president and chief executive officer of the Cotton Board out of Memphis. I appear today as a technical witness on behalf of that organization. I am a cotton producer in the San Joaquin Valley of California, and I have been on the Cotton Board since 1982. The legislation which created the Cotton Board in 1966 specifically prohibits it from influencing Government policy or action. Consequently, the Cotton Board cannot take a position regarding any legislation which may affect the cotton research and promotion program. Therefore, I will limit my comments today to a general review of the research and promotion activities.

In the midst of all of the negative news we have heard recently about agriculture, I am here today to talk about a success story of a self-help market development program funded entirely by U.S. cotton growers. The program was made possible by an act of Congress, but is totally self-sustaining and receives no government funds. As I will explain during my comments, the program is working—consumers are demanding and buying more cotton products at an ever increasing rate.

As an example of that success, I would like to bring to your attention an article that was in yesterday's USA Today. It strongly supports our position that the program is working. And I would like to have that included in the record, if we may.

Mr. GIBBONS. Certainly, we will include it.

Mr. HANSEN. The Cotton Research and Promotion Act formally creating the cotton research and promotion program was passed by Congress in 1966. The act established the Cotton Board to administer the program and directed it to enter into contracts with an organization to conduct the actual research and promotion activities. Originally, the contracting organization operated under the name of Cotton Producer's Institute. In 1970, the program was restructured and Cotton Incorporated was created and subsequently became the contracting organization.

Through various research and promotional activities, Cotton Incorporated implements market-building projects designed to strengthen cotton's competitive position in the fiber market; works to maintain and expand cotton's domestic and foreign markets; aids in the development of new cotton products; and continually works to increase consumer awareness of, and demand for, cotton products.

Cotton Incorporated focuses all of its efforts into a central purpose—convincing consumers and other customers of the superior qualities of cotton products. It has built its organization into a

modern fiber marketing company to accomplish this purpose. In the areas of promotion, Cotton Incorporated uses several approaches to increase demand for cotton.

First, its marketing services department channels most of its activities toward a TV advertising campaign which features the qualities and benefits that consumers derive from cotton. "Take comfort in cotton," Cotton Incorporated's new advertising and marketing campaign, is centered around consumer research findings that indicate consumer preference for cotton is built on psychological factors as well as physical factors.

The Cotton Consciousness program forms the basis for interaction with mills, manufacturers and retailers by combining national promotions for specific performance products with local support through department stores. Additionally, fashion marketing and public relation programs are carried out to keep demand growing.

Next, the U.S. marketing department devotes its promotional efforts toward textile mills and end-product manufacturers to convince these important segments of the marketing chain about the benefits of making more cotton products. The domestic sales force builds markets by offering total marketing support to customers, adding an extra dimension of value to cotton. Commercially ready concepts and products, new manufacturing techniques, and technical assistance all stimulate trade interest.

Cotton Incorporated's market development staff provide information to mills, manufacturers and retailers which emphasizes the growth in consumer demand for cotton. This department provides information on fiber, products, retailing and the consumer, in order to guide Cotton Incorporated's planning and attainment of corporate objectives. Consumer purchases of textile products are monitored by Market Research Corporation of America. In this way, cotton's share of the consumer market is tracked. The basic thrust of these programs is generic in concept. Cotton Incorporated's promotional programs are designed to increase demand for all cotton products.

In the international marketing area, Cotton Incorporated works to protect and expand U.S. cotton's position in overseas markets. Its primary emphasis is on providing technical research services to foreign mills which run U.S. cotton. These services enable textile mills to process our cotton more efficiently. New product ideas and fashion marketing trends are services also provided to foreign customers by Cotton Incorporated.

To complement the efforts of its promotional campaigns, Cotton Incorporated has developed a research division of the first order. Its entire research and development effort is driven by the needs of the marketplace because the ultimate goal is to deliver new and improved cotton products which contain the characteristics demanded by consumers. Specifically, Cotton Incorporated's textile research professionals work to increase cotton consumption in several ways. Scientists, engineers and technicians provide support services; develop new yarns, fabrics, product ideas, and textile chemistry; and perfect processing innovations and cost-saving ideas. Through its fiber quality and agricultural research, it works to improve production efficiency and various elements of cotton's

quality so that mills and manufacturers can transform the fiber into value-added products demanded by today's consumers.

The marketing-oriented approach developed by Cotton Incorporated years ago has contributed greatly to cotton's resurgence. The advertising and other promotional activities have shifted consumers' attitudes in favor of cotton during the past decade. Not only has the penetration by synthetic fibers into cotton's markets been halted, but much of the market share that was lost has been recaptured.

Since 1975, when cotton's market share of apparel and home fabrics, excluding carpets, fell to 34 percent, cotton has made steady gains. Through the third quarter of 1987, cotton's share had climbed to an impressive 49 percent, up significantly from the same period last year. Even more striking has been the gain in per capita cotton consumption in the United States. Dr. Keith Collins, director of USDA's economic analysis staff, projects per capita consumption will reach 23 pounds in 1987, the highest total in 20 years.

Although cotton has recorded excellent gains in the last few years, much more work remains to be done. Competing fibers continue their efforts to retake the marketing initiative lost to cotton. The research and promotion program must strive to sustain the momentum it has created in the marketplace.

Currently, excellent opportunities exist for the cotton industry due to two main reasons. First, Cotton Incorporated has succeeded in developing and improving consumer demand for cotton. Next, the return to price competitiveness, made possible by the Food Security Act of 1985, has created an environment which offers tremendous potential for greater domestic and foreign consumption of U.S. cotton.

Now that U.S. cotton enjoys approximate price parity with foreign growths, Cotton Incorporated's market-building efforts can achieve even greater results.

As mentioned previously, this self-help program has produced the results its founders intended. Cotton Incorporated's strategy of building consumer demand for cotton products has translated into expanded consumption. The research and promotion projects conducted by Cotton Incorporated combine to make it a full-service marketing company which continues to create opportunities and build markets for U.S. cotton.

Thank you for your time.

[Attachments to the statement follow:]

USA TODAY
NOV. 16, 1987

COVER STORY

Industry is weaving a record year

USA farmers, mills and retailers reap the benefits as cotton bounces back

By Sandy Burick
USA TODAY

GREENSBORO, N.C. — No-body's blue where they make denim for Levi's 501 jeans these days.

Certainly not Beverly Albright, a jeans-clad weaver who mans with pride that cotton yarn is shuttling through her looms faster than ever at Cone Mills Corp.'s White Oak textile plant. Albright has seen slower times: Sluggish demand for cotton in 1984 forced the White Oak plant to close one week a month. Now, she gladly works 12-hour shifts because Levi Strauss & Co., Lee Apparel Co. and Wrangler want more denim.

The pace has "really stepped up around here. We're doing a lot more fabric styles and denim samples," says Albright, 33, who has worked at the mill for 12 years. "They're pushing us for better quality — that means we've got more orders."

Thanks to consumers' love affair with cotton and denim, Cone has hired 230 new workers this year at White Oak, the flagship of the 10-mill company. Cone is one of the USA's top denim producers.

Everyone from California cotton farmers to jeans retailers are reaping the benefits as cotton returns as king.

And the stock-market plunge hasn't really tarnished that bright picture. If Christmas shoppers cut back, it'll be on big-ticket items like cars, not apparel, industry leaders predict. They see no reason to stop celebrating cotton's best year yet.

Why cotton is back on top:

■ More shoppers want cotton. Demand for clothing made out of the natural fiber is at a 12-year high. Retail sales of cotton goods rose by $1.8 billion for the first half of 1987 — twice the growth of 1986. Projected clothing retail sales of cotton products this year, even if shoppers cut back: $40 billion. In the first eight months of 1987, cotton captured a 49% share of the retail market. For all of 1970, cotton held a 34% share of the market.

Please see COVER STORY next page ▶

COVER STORY

Cotton becomes the king again

Continued from 1B

■ Cotton-mill production is at a 13-year high. USA mills will buy more cotton this year — an estimated 8 million bales — than they have since 1971.

Denim has been so hot that supply can't keep up with demand. Some jeans manufacturers still wait four to five months for enough denim to make popular stone-washed and acid-washed garments. Wall Street's plunge temporarily spooked cotton users: Mill demand fell off by 200,000 bales in October. But this month, the projection for purchases by USA mills is back up to rate of 8 million bales.

■ USA cotton farmers are more than 80% through harvesting one of the best and biggest crops since 1981 — a projected 14 million bales.

The cash price farmers receive peaked in August at 77.17 cents a pound. A bumper crop and fears that consumer demand would fall pushed that price down to 60.04 cents by the end of October. But by Friday, the price had rebounded to 68.94 cents. But demand for USA cotton — at home and overseas — still is expected to be nearly 13 million bales, according to government estimates.

"Higher prices have made us a lot more optimistic around here," says Jim Hanson, 47, who farms 4,700 acres in Corcoran, Calif. "We're doing some things we haven't been able to do in several years, like upgrade equipment and give our employees bonuses and wage increases. There's no question — we've made a few bucks over our improved conditions."

But Hanson wonders if cotton — like the stock market — was priced too high to start with, thereby encouraging overproduction. "There's a lot of fear around here that there'll be a recession, and textiles will be one of the first things to suffer. That's kind of what prices are showing us now."

Hanson, unlike many of his neighboring cotton farmers, made it through what he calls "the survival years" of 1983 and 1984, when USA cotton farmers were priced out of the world market, domestic textile demand was weak and cotton inventories were bloated.

"Cotton was right down on its knees and about to be counted out," says Nicholas Hahn, executive vice president of Cotton Inc., the promotional arm of the industry. "But we've managed to get our act together."

Farmers — who generally export half their crop — were hard hit in 1985 when USA cotton prices averaged 20 cents higher than world prices. Then, exports dropped to 1.9 million bales. The government stepped in, spending $1.8 billion to ensure that farmers got at least 55 cents a pound the following year. Exports rebounded to 6.6 million bales in 1986; they're projected to reach 6.8 million this year. A strong domestic demand, coupled with a reduced worldwide surplus and higher prices, should bring subsidies for 1988 down to $80 million. But if prices stay lower, price supports may rise.

Here at home, demand for cotton is led by denim, which uses 22% of the domestic crop. And denim has led cotton's resurgence, sizzling with hot-selling acid-washed and stone-washed jeans and miniskirts.

In spite of dim retail-sales expectations for Christmas, clothing manufacturers such as Levi Strauss & Co. don't see a downturn in apparel demand through next year.

"The long-term jeans market will continue to grow, but not by leaps and bounds," says Dean Cirlanos of Levi Strauss. The next generation of denim fashions: acid-washed denims brightly dyed in reds, greens, yellows and purples, and a return to deep indigos.

Cotton Inc. is as bullish about cotton's future as ever, says Hahn. "Will consumer demand go down? That's the $4-dollar question everyone's asking. We think a somewhat more conservative psychology on the part of the consumer will hurt big-ticket items like cars rather than apparel.

"Everything has a way of turning around, but we just don't see it at least through the end of 1988," Hahn says. "Cotton is just going gang busters."

Analysts are more guarded in their predictions. "The strength in demand forecast for this year was very much tied to expectations for a strong economy," says Sandra Cole, a cotton specialist with Shearson Lehman Bros. Inc.

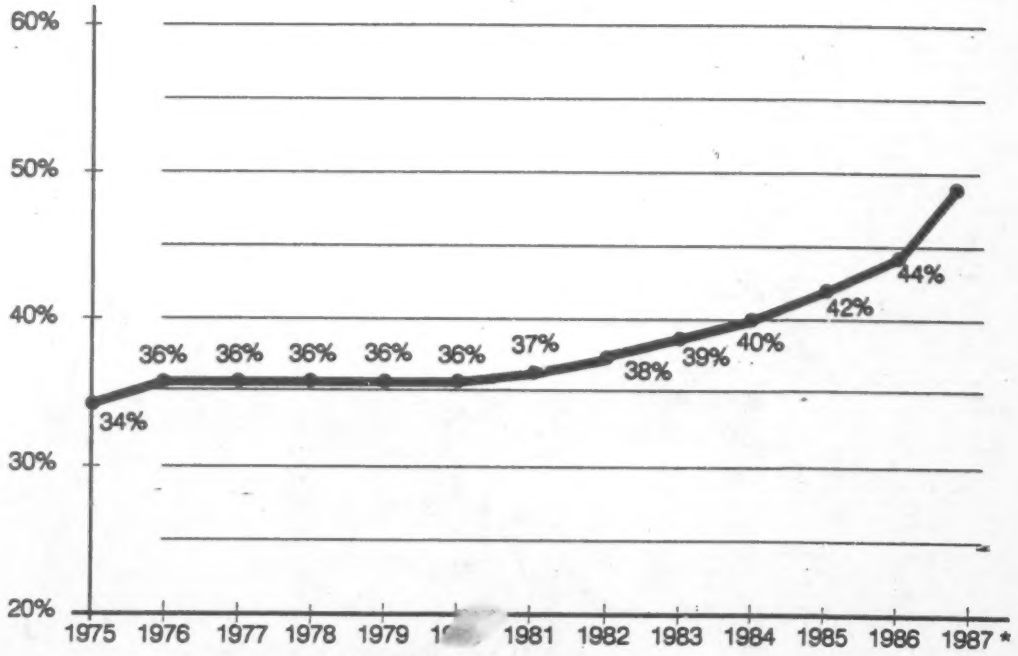
Manufacturers are hedging their bets and buying only enough cotton to meet immediate needs. "This will make farmers and those on the supply side very wary," Cole says, "because the demand they expected may not appear."

And if raw cotton prices stay high, mills may return to more inexpensive, man-made fibers such as polyester. "But the consumer has a lot to say about that," Charles Cunningham of the Agriculture Department says. "If they keep demanding denims and corduroys, then the mills will keep producing them."

And Cotton Inc., the promotions arm of the industry, will keep encouraging consumers to buy cotton. Buoyed by the success of 1987's "Take Comfort in Cotton" campaign it's pushing "The New American Family" for 1988.

Mom and Dad have their cotton jeans and towels; now it's time for baby: "If we could get 1 ounce of cotton into every disposable diaper in the USA," says Cotton Inc.'s Hahn, "that would be 1 million more bales of cotton a year."

COTTON'S MARKET SHARE



*through first nine months of 1987

Cotton's share of retail fiber market for apparel and home fabrics, excluding carpet

Source: Market Research Corporation of America (MRCA)

The Kansas City Star, Sunday, November 15, 1987

Cotton rebounds, and Texas loves it

Demand at home and abroad stirs some optimism

By Steven H. Lee
Dallas Morning News

Lamesa, Texas — A storm was brewing as dusk set in on the Southern High Plains of West Texas one Sunday in early September.

Out of the darkened sky to the northwest came a volley of hailstones, as if scattered from a shotgun. In a farmhouse about 15 miles southwest of Lamesa, Val Stephens and his family kept a prayer vigil.

Outside in the field was Stephens' best cotton crop in more than five years, with cotton prices at their highest in almost 10 years. And it was heavy rain in early summer that had delayed the start of this year's growing season, ruining much of the area's crop and forcing farmers to replant.

Miraculously, the hailstorm missed most of Stephens' 1,000 acres, cutting a swath a mile or two wide and several miles long that affected some neighboring farms. Last week, standing in a field with rows of cotton plants readied for harvest, Stephens finally could say, "I think we're over the hump."

A doubling of cotton prices since last year — brought on by a devalued dollar, improved exports and rising domestic demand — along with generally favorable weather have provided the makings of a major rebound for cotton and the brightest prospect yet for recovery in Texas agriculture.

"There's really a dramatic story with the cotton industry in Texas this year," said Bill Gruben, senior economist with the Federal Reserve Bank in Dallas. "Prices are up, yes. But there's also the risk the Southern High Plains farmers took this year, replanting in June and risking bad weather later on."

To farmers around Lamesa (pronounced La-MEECE-uh), about 350 miles west of Dallas, it was a risk worth taking. After a disastrous crop last year — October 1986 rains of 15 to 20 inches left many producers little choice but to plow under their fields — the growers forged ahead, bolstered by prospects of better times.

Cotton plants are ready for harvest. Cotton consumption has increased, rising to 7.5 million bales during the 1986-87 marketing year from 6.4 million bales the year before. (file photo)

Following the September hailstorm, which threatened a grim repeat of last year, warm and mostly dry weather has prevailed, allowing replanted cotton extra time to mature. Production forecasts took on a more optimistic look.

Statewide, cotton production this year is projected at 3.9 million bales, up 54 percent from 2.5 million in 1986, according to the Texas Agricultural Statistics Service in Austin. U.S. cotton production is projected to increase 38 percent to 13.1 million bales.

Yield per acre in Texas is estimated at 440 pounds — which would be a record and up about 25 percent from 353 pounds last year.

Production in the Southern High Plains region of Texas — a 25-county area extending roughly from just north of Lubbock to Midland and west to the New Mexico border — is projected to approach last year's statewide total, about 2.25 million bales.

That would be double last year's production in the region, he said.

Cotton futures prices exploded to a peak of 80 cents a pound in August, up from 34 cents a pound in August 1986, said Carl Anderson, an economist with the Texas Agricultural Extension Service in College Station. The futures price for December delivery of cotton since has slipped to 62 cents last week, he said, affected by expectations of record yields.

"Production-wise, this is probably the best crop I've had in five years," Stephens said. "Price-wise, it's the best since 1978. And it gets a West Texas farmer excited to see prices and production up like this."

A number of complex market forces have combined to drive the dramatic upswing.

A drop in the dollar has made U.S. agricultural exports more marketable. Economists also give credit to a "marketing loan" provision of the 1985 farm bill, which went into effect in August 1986.

The provision allowed the price of U.S. cotton exports to dip to world-market levels or below, with the government compensating growers for the price decline with income supports.

As a result, economist Anderson said, exports of U.S. cotton jumped to 6.7 million bales during the 1986-87 marketing year, which ended July 31, from just 2 million bales the previous year. U.S. cotton exports should continue to rise to about 7 million bales during the current marketing year, according to government projections.

U.S. cotton regained foreign markets lost to China and India, which suffered droughts that sharply cut production this year. The reduced production cut world oversupplies to about 26 million bales from nearly 46 million bales at the start of the previous marketing year, Anderson said.

And cotton consumption in this country also has increased, rising to 7.5 million bales during the 1986-87 marketing year from 6.4 million bales the year before, and trimming oversupplies, Anderson said. With demand high, domestic consumption is expected to grow to 7.7 million bales this marketing year.

Textile mills in the United States are clamoring for U.S. cotton, responding to increased consumer acceptance, said Keith Collins, director of the U.S. Department of Agriculture's economic analysis staff in Washington. He said the change is due in part to industry promotional efforts but also to technology making cotton easier to care for — more wrinkle-free, for example — and adaptable to fashion trends, such as pre-faded jeans.

Throughout the late 1960s and 1970s, cotton took a beating from polyester and other man-made fabrics, Collins said. Since then, he said, cotton has made "a remarkable recovery."

Per capita consumption of cotton in July stood at 33 pounds, the highest level in 10 years and up almost six pounds since 1985, Collins said. And domestic mill consumption hit an annualized rate of 8.3 million bales that month, the highest since the early 1970s and up from a low of 5.5 million bales in 1984.

Around Lamesa, a town of about 12,000 people whose fortunes rise and fall with those of area cotton producers, there are strong signs of a rebound.

First National Bank of Lamesa president Norman Stewart says that for the first time since 1979 he can project an increase in agricultural lending for the next production year. With cotton prices up, farmers will be able to begin replacing old equipment.

Mr. GIBBONS. Thank you, sir. We thank you gentlemen for coming today and we appreciate the efforts that you put into this program.

Mr. STARRH. Mr. Chairman, could I just make one comment?

Mr. GIBBONS. Certainly.

Mr. STARRH. I am a producer from California and during the hearing I have been hearing some questions asked and I just have one comment to make.

The question was asked why are we asking for a mandatory program? And I think the answer to the producers is we have a successful program, but 30 percent of the growers at this point are paying for the full program costs. We have 40 percent being imported into the United States and 30 percent of the growers are not paying their fair share of the program at the present time, which adds up to about 70 percent of the cotton market in the United States is being carried by 30 percent of the producers.

So when the question is asked, I think it needs to be answered in that light. We need to find answers to some of the problems that exist, but the producers who are paying the bill at the present time are tired of carrying the load for the imports and for the other producers in the United States. And I think that is what we are here for and what we are asking for in H.R. 1622.

Thank you.

Mr. GIBBONS. Thank you, very much.

Mr. HANSEN. Thank you, Mr. Chairman.

Mr. GIBBONS. Next we will have a panel of witnesses from the National Farmers Union, the American Agricultural Movement, and the American Association of Exporters and Importers. Mr. Rankin, Mr. Willis, and Mr. Joseph.

STATEMENT OF JOE RANKIN, MEMBER, EXECUTIVE COMMITTEE, NATIONAL FARMERS UNION, AND PRESIDENT, TEXAS FARMERS UNION

Mr. RANKIN. Thank you, Mr. Chairman and members of the committee. I am Joe Rankin of Ralls, Texas, and I appear today before the Committee on Ways and Means in several capacities.

First, I am president of Texas Farmers Union, representing some 10,000 farm and ranch families in Texas. Additionally, I am appearing on behalf of the National Farmers Union, a general farm organization representing the interests of some quarter million farm and ranch families throughout the United States. I am also a member of the executive committee of the National Farmers Union.

I also appear as a cotton farmer who is directly affected by this legislation. As a farmer, I also serve as a member of the board of directors of the Plains Cotton Cooperative Association of Lubbock, Texas.

I appreciate the opportunity to appear today on behalf of both the Texas Farmers Union, and the National Farmers Union in regard to H.R. 1622, the Cotton Research and Promotion Act of 1987.

Mr. Chairman, we, at both the State and national levels of the National Farmers Union, object strenuously to this legislation

which would make substantial changes to the Cotton Research and Promotion Act.

I have a statement, but in the essence of time, I will summarize that and condense it down.

Mr. GIBBONS. Your statement and all the other statements will be placed in the record in full.

Mr. RANKIN. To start with is the National Farmers Union statement that we have, which is parallel and equal to the Texas statement. I will just review that.

First, we are opposed to mandatory checkoff programs.

We go on and stipulate that the disbursement of funds collected is collected and controlled by boards of producers elected by producers that are assessed, and that the operations of the program are controlled by those producer boards.

Next we request that approval is by two-thirds of producers voting in referendum by mail. Also the programs being formulated or currently in operation are subject to review in a referendum every 3 years and subject to review at any time on the call of 10 percent of the producers.

Next, the producers be provided the opportunity to contribute or not to contribute at the initial point of collection. Any changes in existing checkoff programs, including changes in checkoff levies and/or administrative and operational changes, be submitted to producers effected and subject to their approval by a two-thirds vote.

Whenever a commodity checkoff program is assessed American producers, we recommend that the same fee be assessed foreign imports of that commodity in either raw or processed form with no refund allowed on such imports.

The Texas policy statement is basically the same as that. As dictated by these policy statements, it is very apparent from the above that the changes proposed in this legislation are, for the most part, in direct contradiction to the policy of both the Texas Farmers Union and the National Farmers Union.

The overriding problem with the legislation from our perspective is the mandatory nonrefundable assessment. The mandatory nature of this assessment simply makes it an occupational tax. If you want to grow cotton, you pay the Cotton Board for the privilege of doing so.

Additionally, we object to the provision that would provide a simple majority of producers to approve these fundamental changes in the law. This is a complete change of the manner in which we implemented this law by two-thirds majority that was required.

Let me state at this point, Mr. Chairman, lest there be any misunderstanding, we are not opposed to the Cotton Research and Promotion Program as it is now operated. In fact, the National Farmers Union was one of the original supporters of the act. On August 25, 1966, the then president of the Texas Farmers Union, Jay Naman, appeared at a Cotton Research and Promotion order hearing in Dallas, Texas, supporting the implementation of the order.

We provided support to the original order and we support it now, provided that the board be representative of real cotton farmers

and that producers who do not support the program have an opportunity to receive a refund of assessments collected from them.

While the record on the next page will provide the committee with a recap of Cotton Incorporated's budget, collections and refunds for the fiscal year 1984 and for the latest, 1986. As the table points out, total funds collected in 1984 was $26 million. The refunds was a little over $8 million for a refund of 31.7 percent.

In 1986, we had collected $33 million, almost $34 million, and refunded almost 36 percent.

Mr. Chairman, it is obvious that a number of producers do not want to support the Cotton Research and Promotion Program. As I said earlier, to make the program mandatory with no refund provision will, in effect, establish an occupational tax. We do not believe that a producer should be forced to support a private organization if he chooses not to do so.

To summarize this part of my statement, the Farmers Union is opposed to this legislation, H.R. 1622, because it removes the right of a producer to request and receive a refund of assessments made by him. It permits representation of importers of cotton on the Cotton Board. Third, it alters the percentage of producers required to approve the changes in the current program.

In regard to alternative proposals made to impose an excise tax on cotton producers; we are adamantly opposed to this position. Not only does it violate our policy on commodity checkoff programs; it is a serious misuse of the taxing and police powers of the Federal Government.

The imposition of such a tax would effectively eliminate any right of cotton producers to review the performance of the Cotton Research and Promotion Program through a producer referendum, since the tax could not be repealed by a vote of producers but only through an act of Congress.

We would also have to question the constitutionality of such a tax. We can think of no precedents for using the taxing power of the State to fund what is essentially a private organization. In fact, court decisions over the past century have ruled against using public funds for nonpublic purposes. Either an import levy or an excise tax on cotton would be a public tax and the diversion of its revenues to a private organization would be questionable.

Mr. Chairman, on behalf of the Farmers Union, I must say again that we are adamantly opposed to the imposition of such a tax on cotton farmers, or any farmers for that matter. Simply stated, it is a bad tax, it is a bad idea, and it is bad public policy.

With that, Mr. Chairman, I will conclude my remarks and I will be happy to answer any questions that the members of the committee might have.

[The prepared statement and a letter subsequently received follow:]

STATEMENT OF

JOE RANKIN, PRESIDENT
TEXAS FARMERS UNION

On behalf of the
NATIONAL FARMERS UNION

Mr. Chairman and Members of the Committee:

I am Joe Rankin of Ralls, Texas. I appear today before the Committee on Ways and Means in several capacities. First, I am the President of the Texas Farmers Union, representing some 10,000 farm and ranch families in Texas. Additionally, I am appearing on behalf of the National Farmers Union, a general farm organization representing the interests of some quarter million farm and ranch families throughout the United States. I am also a member of the Executive Committee of the National Farmers Union.

I also appear as a cotton farmer who is directly affected by this legislation. As a farmer, I also serve as a member of the Board of Directors of the Plains Cotton Cooperative Association of Lubbock, Texas.

I appreciate the opportunity to appear today on behalf of both the Texas Farmers Union and the National Farmers Union in regard to H.R. 1622, the"Cotton Research and Promotion Program Act of 1987."

Mr. Chairman, we, at both the State and National levels of the Farmers Union, object strenuously to this legislation which would make substantial substantive changes to the Cotton Research and Promotion Act.

Before I proceed with the reasoning behind our position permit me to quote our Policy Statements on the issue of Commodity Check-off Programs to the Committee.

1987 POLICY STATEMENT OF NATIONAL FARMERS UNION
"7. Commodity Check-Off Programs"

"We are opposed to mandatory check-off programs.

"The Farmers Union will support research and promotion programs financed by deductions from the proceeds of sales by producers of agricultural commodities, ONLY if all of the following criteria are met:

"a. That disbursement of funds collected is collected and controlled by boards of producers elected by the producers assessed, and that the operations of the program are controlled by those producer boards.

"b. Approval is by two-thirds of producers voting in referendum by mail.

"c. Programs being formulated or currently in operation are subject to review in a referendum every three years and subject to review at any time on the call of 10 percent of producers concerned.

"d. Producers be provided the opportunity to contribute or not at the initial point of collection.

" e. Criminal penalties be provided against funds being used for political or lobbying activities.

" f. Changes in existing check-off programs, including changes in check-off levies and/or administrative and operational changes, be submitted to producers affected and subject to approval by a two-thirds vote.

"g. After a federal check-off program is in effect, all review referenda should be financed and conducted by the federal government.

"h. Whenever a commodity check-off program is assessed American producers, we recommend that the same fee be assessed foreign imports of that commodity in either raw or processed form with no refund allowed on such imports....."

1987 POLICY STATEMENT
TEXAS FARMERS UNION
"N. Research and Promotion Programs"

"... The following criteria should be included in all state and federal research and promotion programs.

"1. The program is presented to producers in referendum and approved by two-thirds of the producers voting.

"2. The Agriculture Commissioner or Secretary of Agriculture should strictly enforce the check-off funds for any use other than for research or promotion.

"3. A research and promotion program can be terminated at any time by a simple majority vote of the producers voting, with such referendum held on the call of 10 percent of the producers.

"4. Exemption for any check-off program shall be available at the point of check-off.

"5. We urge that the major emphasis in agricultural research be shifted from production to marketing.

"6. All research and promotion programs must be under the control of a farmer-elected board of directors made up solely of producers who derive two-thirds or more of their gross income from farming.

"7. We demand the Legislature or Congress closely scrutinize all appropriations requests for agricultural research programs conducted by government agencies, educational institutions or private contractors to insure that public funds be spent only on projects beneficial to family farmers and consumers.

As is very apparent from the above two policy statements, the changes proposed in this legislation are, for the most part, in direct contradiction to the policy of both the Texas Farmers Union and the National Farmers Union.

The OVERRIDING problem with the legislation from our perspective is the mandatory non-refundable assessment. The mandatory nature of this assessment simply makes it an occupational tax. If you want to grow cotton, you pay the Cotton Board for the privilege of doing so.

There are several other features of the proposal to which we object also. We find no justification for representatives of importers of cotton to serve on a board that decides where American cotton farmers' money is going to be spent. This is particularly objectionable to us in light of the fact that cheap foreign cotton is today being used to undermine the price domestic cotton farmers are receiving. (See attachment "A")

Additionally, we object to the provision that would allow a simple majority of producers to approve these fundamental changes in the law.

Let me state at this point Mr. Chairman, lest there be any misunderstanding; we are not opposed to the Cotton Research and Promotion Program as it is now operated. In fact, the National Farmers Union was one of the original supporters of the Act. On August 25, 1966, the then President of the Texas Farmers Union, Jay Naman, appeared at a Cotton Research and Promotion Order Hearing in Dallas, Texas, supporting implementation of the Order. We supported the original Order then and we support it now; PROVIDED, that the board be representative of real cotton farmers and that producers who do not support the program have an opportunity to receive a refund of assessments collected from them.

Contrary to the proponents claim that this legislation, and in fact, the Cotton Research and Promotion Program has universal support amongst producers, that is simply not the fact. In FY 1984, Cotton Incorporated had to refund 31.7% of all funds collected from producers. In FY 1986, Cotton, Inc., had to refund 35.7 % of all funds collected from producers. I submit to the Committee that this does not represent an overwhelming show of support for the program by the people who pay the bill, America's cotton farmers.

For the record, let me provide the Committee with a re-cap of Cotton, Inc.'s budget for Fiscal Years 1984 and 1986.

COTTON, INC.
(1984)

Total Budget	$18,000,000	
Collected	26,210,966	
REFUNDED	8,299,153	(31.7%)
Advertising $ Promotion	12,567,000	(69.8%)
Research	3,986,000	(22.1%)
Education & Public Relations	200,000	(1%)
Administration	1,247,000	(6.9%)

COTTON, INC.
(1986)

Total Budget	$18,545,000	
Collected	33,994,554	
REFUNDED	12,747,000	(35.7%)
Advertising & Promotion	12,747,000	(68.1%)
Research	4,097,000	(22%)
Education & Public Relations	208,000	(1%)
Administration	1,701,000	(9%)

Mr. Chairman, it is obvious that a number of producers do not support the Cotton Research and Promotion Program. As I said earlier, to make the program mandatory with no refund provision will in effect establish an occupational tax. We do not believe that a producer should be forced to support a private organization if he chooses not to do so. On the other hand, we support the right of those who want to support the efforts of such promotion programs.

Quite frankly, there are many of us in agriculture who think we are paying too much in advertising and promotion now ---much of it for funding programs that promote on agricultural product over another -- in other words, we are paying some Madison Avenue ad firm to pit one commodity against another.

Last year, the nine Research and Promotion Programs established by specific federal law collected $170,733,296 from farmers. (See Attachment "B"). In addition, another $30,092,653 was collected from farmers through the 22 Federal Market Orders that authorize Research and Promotion Programs. (See Attachment "C")

To summarize this part of my statement, the Farmers Union is opposed to this legislation, H.R. 1622, because: 1) It removes the right of a producer to request and receive a refund of assessments made against him; 2) It permits representation of importers of cotton on the Board; and, 3) It alters the percentage of producers required to approve the changes in the current program.

In regard to the alternative proposal to impose an excise tax on cotton producers; we are adamantly opposed to this proposition. Not only does it violate our policy on commodity check-off programs; it is a serious misuse of the taxing and police powers of the federal government. In addition, the proposal appears to be blatantly unconstitutional as well.

Following is the definition of an excise tax according to Black's Law Dictionary: "A tax imposed on the performance of an act, the engaging of an occupation, or the enjoyment of a privilege."

Is this Committee seriously considering imposing an occupational tax on cotton farmers, and, in effect licensing them to produce cotton?

Furthermore, imposition of such a tax would effectively eliminate any right of cotton farmers to review the performance of the

Cotton Research and Promotion Program through a producer referendum since the tax could not be repealed by a vote of producers but only through an Act of Congress.

We would also have to challenge the constitutionality of such a tax. We can think of no precedents for using the taxing power of the state to fund what is essentially a private organization.

In fact, court decisions over the past century have ruled against using public funds for non-public purposes. Either an import levy or an excise tax on cotton would be a public tax and the diversion of its revenues to a private organization would be illegal.

We recognize that members of the Board of Directors of Cotton, Inc., are concerned about the high rate of producer refunds. But is it their intent that rather than have producers voluntarily support their program they would use the power of the state to compel farmers to contribute?

Mr. Chairman, on behalf of the Farmers Union I must say again that we are adamantly opposed to the imposition of such a tax on cotton farmers, or any farmers for that matter. Simply stated, it is a bad idea and bad public policy.

With that Mr. Chairman, I will conclude my remarks. I will be happy to answer any questions that Members of the Committee may have.

ATTACHMENT "A"

Federal Register
Vol. 52, No. 210
Monday, November 9, 1987

Presidential Documents

Title 3—

The President

Proclamation 5726 of November 5, 1987

To Establish a Special Limited Global Import Quota for Upland Cotton

By the President of the United States of America

A Proclamation

1. Section 103A(o)(1) of the Agricultural Act of 1949, as added by section 501 of the Food Security Act of 1985 (7 U.S.C. 1444–1(o)(1)), provides that whenever the Secretary of Agriculture determines that the average price of Strict Low Middling one and one-sixteenth inch cotton (micronaire 3.5 through 4.9), hereinafter referred to as "Strict Low Middling cotton," in the designated spot markets for a month exceeded 130 percent of the average price of such quality of cotton in such markets for the preceding 36 months, notwithstanding any other provision of law, the President shall immediately establish and proclaim a special limited global import quota for upland cotton. The amount of such quota, if no special quota has been established under that section during the previous 12 months, is to be equal to 21 days of domestic mill consumption of upland cotton at the seasonally adjusted average rate of the most recent 3 months for which data are available and is to remain in effect for a 90-day period.

2. The Secretary of Agriculture has informed me that he has determined that the average price of Strict Low Middling cotton in the designated spot markets for the month of August 1987 has exceeded 130 percent of the average price of such cotton in such markets for the preceding 36 months. The Secretary's determination was based upon the following data:

(a) The average price of Strict Low Middling cotton in the designated spot markets for the month of August 1987 was 75.89 cents per pound.

(b) The average price of Strict Low Middling cotton in the designated spot markets for the 36 months preceding the month of August 1987 was 57.89 cents per pound.

3. Twenty-one days of domestic mill consumption of upland cotton, which is any variety of the Gossypium hirsutum species of cotton, at the seasonally adjusted rate of the most recent 3 months for which data are available is 303,894,717 pounds.

NOW, THEREFORE, I, RONALD REAGAN, President of the United States of America, by the authority vested in me by the Constitution and statutes of the United States of America, including section 103A(o)(1) of the Agricultural Act of 1949, as added by section 501 of the Food Security Act of 1985, and in order to establish a special 90-day limited global import quota for 303,894,717 pounds of upland cotton, do hereby proclaim as follows:

Part 3 of the Appendix to the Tariff Schedules of the United States is hereby modified by inserting in numerical sequence the following temporary provision:

"Item	Article	Quota quantity (in pounds)
986.07	Notwithstanding any other quantitative limitations on the importation of cotton, upland cotton, if accompanied by an original certificate of an official of a government agency of the country in which the cotton was produced attesting to the fact that cotton is a variety of Gossypium hirsutum species of cotton, may be entered during the 90-day period November 6, 1987, through February 3, 1988. . .	303,894,717 pounds".

The provisions of this Proclamation shall become effective on the day following the date of signature. The amendment made by this Proclamation to the Tariff Schedules of the United States shall expire on February 28, 1988.

IN WITNESS WHEREOF, I have hereunto set my hand this 5th day of November, in the year of our Lord nineteen hundred and eighty-seven, and of the Independence of the United States of America the two hundred and twelfth.

Ronald Reagan

[FR Doc. 87-25863
Filed 11-6-87; 10:53 am]
Billing code 3195-01-M

ATTACHMENT "B"

AGRICULTURAL COMMODITY CHECK-OFF PROGRAMS
ESTABLISHED BY SPECIFIC FEDERAL LAW

TOTAL BUDGET	COLLECTED	REFUNDED
PORK PROMOTION AND RESEARCH (1/87 - 6/87)		
$12,322,600	$12,251,700	$1.390,606 (11.4%)
BEEF PROMOTION AND RESEARCH (10/86 - 6/87)		
$25,550,375	$25,295,747	$2,622,834 (10.4%)
AMERICAN SHEEP PRODUCERS COUNCIL (7/87 - 6/88) 1/		
$6,176,000	$4,950,723	No Refund Provision
MOHAIR COUNCIL OF AMERICA (7/87 - 6/88) 2		
$509,377	$810,039	No Refund Provision
COTTON RESEARCH AND PROMOTION ORDER (Fiscal 1986)		
$18,545,000	$33,994,554	$12,150,550 (35.7%)
POTATO RESEARCH AND PROMOTION ORDER (Fiscal 1987)		
$5,650,000	$5,606,836	$1,031,324 (18.4%)
HONEY RESEARCH, PROMOTION AND CONSUMER INFORMATION ORDER (2/87 - 9/87)		
$2,000,000	$1,611,956	$8,991 (0.5%)
TOTAL BUDGET	COLLECTED	REFUNDED
EGG RESEARCH AND PROMOTION ORDER (Calendar Year 1986)		
$4,506,237	$7,879,454	$3,484,714 (44.2%)
NATIONAL DAIRY PROMOTION AND RESEARCH BOARD		
$71,835,913	$78,332,287	No Refund Provision

1/ Fiscal 1988 Budget
2/ Fiscal 1988 Budget

Check-off Programs 2

86-800 O - 88 - 4

ATTACHMENT "C"

AGRICULTURAL COMMODITY CHECK-OFF PROGRAMS
UNDER FEDERAL MARKETING ORDERS 1/

	DRIED PRUNES CALIFORNIA (85-86)	CELERY FLORIDA (85-86)	ALMONDS CALIFORNIA (85-86)
Total Budget	$245,526	$126,000	$1,735,918
Collected	$309,046	$111,474	$ 888,004
	WALNUTS CALIFORNIA (85-86)	DATES RIVERSIDE COUNTY, CA. (85-86)	ONIONS IDAHO & EASTERN OREGON (86-87)
Total Budget	$1,255,322	$26,050	$710,000
Collected	$1,424,013	$23,661	$605,418
	ONIONS SOUTH TEXAS (86-87)	MELONS SOUTH TEXAS (86-87)	OLIVES CALIFORNIA (1986)
Total Budget	$283,226	$197,696	$1,862,400
Collected	$286,972	$ 91,006	$1,683,725
	LETTUCE LOWER RIO GRANDE VALLEY TEXAS (86-87)	GRAPES SOUTHEASTERN CALIFORNIA (85-86)	PEARS 6 VARIETIES OREGON WASHINGTON, CALIF. (85-86)
Total Budget	$44,415	$50,500	$1,871,477
Collected	$18,431	$40,897	$1,853,342
	PAPAYAS HAWAII (1986)	ORANGES & GRAPEFRUIT LOWER RIO GRANDE VALLEY TEXAS (85-86)	LIMES FLORIDA (86-87)
Total Budget	$332,880	$185,570	$204,000
Collected	$211,569	$ 20,000	$199,295
	AVOCADOS SO. FLORIDA (86-87)	NECTARINES CALIFORNIA (86-87)	FRESH PEARS, PLUMS & PEACHES CALIFORNIA (86-87)
Total Budget	$193,000	$2,583,897	$4,741,079
Collected	$115,046	$2,41[illegible],923	$4,955,347
	PRUNES WASHINGTON & OREGON (86-87)	TOKAY GRAPES SAN JOAQUIN COUNTY, CA. (86-87)	TOMATOES FLORIDA (86-87)
Total Budget	$27,963	$111,032	$712,500
Collected	$17,465	$ 66,459	$852,480
	FEDERAL MILK MARKET ORDER ADMINISTRATORS		
Total Budget	$14,454,885		
Collected	$13,905,980		

1/ There are no provisions for refunds except for the Dried Prune Program. 85-86 refunds amounted to $110,133 (35.6%).

Texas Farmers Union

OFFICE OF THE PRESIDENT
P.O. BOX 7276/5400 BOSQUE BLVD./WACO, TEXAS 76710
TELEPHONE - (817) 776-4700

November 20, 1987

Hon. Sam Gibbons
Committee on Ways and Means
Chairman, Subcommittee on Trade
1102 Longworth House Office Bldg.
Washington, D. C. 20515

Dear Mr. Chairman:

I appreciated the opportunity to testify before your Committee in behalf of National Farmers Union and Texas Farmers Union on H.R. 1622, The Cotton Research and Promotion Act of 1987.

As I indicated in my statement, I am also a member of the Board of Directors of the Plains Cotton Cooperative Assn. of Lubbock, Texas. The Cooperative has about 20,000 members who are cotton producers. The Board of Directors passed the enclosed resolution May 21, 1986. I respectfully request that the resolution be placed in the record.

As this resolution states, cotton producers as a whole continue to support the present Research and Promotion Act, however, to change the rules to implement mandatory non-refundable assessments with only a majority vote would in effect establish an occupational tax.

Also, National Farmers Union and Texas Farmers Union are both opposed to H.R. 1622, however, we do support the present program now in place and working. We urge your Committee to remove H.R. 1622 from the Budget Reconciliation package and continue the current Research and Promotion now in place and working.

Respectfully submitted,

Joe Rankin

Joe Rankin
President

JR/im

Enclosure

cc: Hon. Richard Gephardt

cc: Hon. J. J. Pickle

cc: Hon. Daniel Rostenkowski

CERTIFICATE OF CORPORATE RESOLUTION

I, Van Allan May, Secretary of Plains Cotton Cooperative Association, a Texas cooperative corporation, do hereby certify that said corporation is duly organized and existing under the laws of the State of Texas; that it is duly qualified to do business in the State of Texas and is in good standing in such State; that on the 21st day of May, 1986, there was held a regular meeting of the Board of Directors of said corporation, held in accordance with the Charter and Bylaws of the corporation; that at said meeting the following resolution was duly adopted and that the same is now in full force and effect:

> Recognizing the need to maintain research and promotion programs, Be It Resolved that any proposal to change the Research & Promotion Act shall be presented to producers in referendum and approved by two-thirds of producers voting. That exemptions for any check-off shall be made available at the point of check-off. Be it further resolved that the Secretary of Agriculture shall strictly enforce the rules regarding check-off funds being used for any purpose other than research and promotion and that all research and promotion programs can be terminated at any time by referendum to be held when refunds of check-offs exceed one-third of collections. That all research and promotion programs shall be under the direct control of a cotton producer elected board of directors made up solely of producers of cotton who derive a major portion of their income from farming.

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary of said corporation, and have attached hereto the official seal of said corporation on this 16th day of November, 1987.

Van Allan May

Van Allan May, Secretary

Mr. GIBBONS. I wonder if you would repeat for me those refund figures you gave there. I did not realize the refunds were that high.

Mr. RANKIN. In 1984, the refund percentage was 31.7 percent. They collected $26.2 million and they refunded $8.3 million, for 31.7 percent. In 1986 crop year, the figure was 35.7 percent of the total funds collected were refunded.

Mr. GIBBONS. Thank you very much. That is very interesting.

The next witness is Mr. Willis.

STATEMENT OF TOMMY B. WILLIS, PAST NATIONAL PRESIDENT, AMERICAN AGRICULTURE MOVEMENT, INC., AND PRESIDENT, TENNESSEE AGRICULTURE MOVEMENT

Mr. WILLIS. Thank you.

Mr. Chairman, I am Tommy Willis, a cotton farmer from west Tennessee. It is a pleasure for me to appear before this committee today on behalf of the American Agriculture Movement to express our concerns regarding H.R. 1622, the proposal to make the cotton checkoff mandatory for the American cotton producer.

We understand that this proposal is being offered so that a similar checkoff can be imposed on imported cotton and cotton textiles. We of the American Agriculture Movement support the collection of an appropriate fee on imported cotton for cotton promotion, but believe this can be accomplished without changing the domestic checkoff system from a voluntary to a mandatory one.

What we are currently doing in this country is using the domestic checkoff money to increase consumer demand, part of which is being filled by approximately 5 million bales of imported cotton. It is only fair that those who profit from this increased demand by selling imported cotton also contribute to the promotion fund.

I believe that Cotton Incorporated, the research and promotion arm of the cotton industry, runs the best program of all the commodity research and promotion groups. The producer today is receiving a good return on his investment in this program. This year, for example, approximately 45 percent of our cotton will be moved from the field to the gin in modules which were conceived and developed by Cotton Incorporated. Also, their promotion of 100 percent cotton and cotton blend fabrics have greatly increased the use of cotton, both domestically and abroad. The recent upswing in the cotton market is due largely to this increase in consumption, along with a worldwide crop shortage, rather than the effect of the 1985 farm bill, as some would have you believe. The worldwide consumption has exceeded worldwide production by approximately 8 to 9 million bales for the past marketing year.

While Cotton Incorporated has a well managed program in place today, that has not always been the case. Ten years ago, it did not enjoy this reputation. Many of you will remember the controversy a decade ago when Duke Wooter ran the program. Charges of exorbitant salaries, wasteful consulting contracts, and other abuses led to congressional hearings. These hearings, along with a significant increase in the number of cotton farmers requesting a refund of their checkoff money, eventually forced Mr. Wooter's resignation and a change in the way the program was managed. The ability of farmers to register their disapproval by requesting a return of

their money was a crucial factor in cleaning up the program and providing the well-managed program from which we all benefit today. That would not have been possible with a mandatory checkoff system.

There are other ways to accomplish the goals sought by those proposing this current change; methods which leave the voluntary system intact.

First, Congress could impose an import levy on imported cotton equal to the domestic checkoff for promotion. This should be politically popular in today's political climate.

Another possibility would be to tie the mandatory condition of domestic cotton to the actual cost of production, as determined by land grant universities. It would work like this: so long as a market is below the average cost of production, the producer would be eligible to request a refund. If the market is above the cost of production, no refund would be available. The exporting nation then would be in violation of GATT or they would pay the checkoff.

Another concern is that when the farmer is selling his crop and does not receive enough money to pay his production loan after harvest in December, his checkoff money is often the only money available to him to feed his family until he can secure another crop loan the following March. To make the checkoff mandatory and not refundable would deprive him of this emergency source of living expense.

In closing, the American Agriculture Movement would like to see this issue resolved in a manner that maintains our current system of voluntary checkoffs for domestic cotton producers. We believe this system has served to guarantee a well-managed promotional research program and to provide distressed farmers with emergency relief.

Thank you for the opportunity to share our views with this committee.

Mr. GIBBONS. Thank you, Mr. Willis.

Now, Mr. Joseph.

STATEMENT OF FREDERICK M. JOSEPH, GENERAL ATTORNEY, J.C. PENNEY CO., INC., ON BEHALF OF TEXTILE AND APPAREL GROUP, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

Mr. JOSEPH. Thank you, Mr. Chairman.

My name is Frederick M. Joseph. I am an attorney with the J.C. Penney Co. but I am here today to present to this committee the views of the Textile and Apparel Group of the American Association of Exporters and Importers.

Our testimony has been submitted for the record, so I will just try to summarize the points.

To start off, we are very strongly opposed to this legislation, basically on two grounds. It is bad public policy and it has what we believe are unsurmountable administrative problems with it.

It is bad public policy because retailers and importers want to provide their customers with the goods that they want. We should not be placed in the business of paying somebody to promote a par-

ticular type of fiber. It just does not make very good sense to us as retailers and importers.

Secondly, we really cannot benefit fully from this program. The reason for that is that there is a whole culture of bilateral agreements under the MFA which strictly restrain the amount of cotton and cotton apparel and other cotton products that can come into this country. So for us to pay for further advertising of cotton that we cannot fully benefit from does not make very good sense to us.

A third point bothers us. It strikes us that this bill is but one of a large number of similar types of bills that have been proposed and in some cases have passed the Congress, where import surcharges are used to pay for domestic programs. We need only talk about the Customs user fee, the harbor fees, and the Superfund tax. The one at issue here is even more ludicrous because it is not even a public purpose that is being funded, but a private promotional program.

And finally, we believe that to have an exaction, whether it is a tax or a fee or whatever you want to call it, is in violation of our international undertakings. First of all, even if it is mandatory, we believe that it is in violation of our GATT obligations. Under the GATT, the way to get moneys for the Government is through tariffs.

Secondly, last year, at Punta del Este, when the present Uruguay round was set in motion, we agreed to a standstill agreement, which provided that we would put in place no additional import restraints. This is clearly an additional import restraint.

And finally, under our MFA obligations, a treaty that was only renegotiated last year, we undertake that only the MFA mechanism should be used to restrain trade in textiles. So these are the reasons why we think this is bad public policy.

On the administrative level, we have problems in how the computation of a bale equivalent is to be made. As you pointed out earlier today, Mr. Chairman, there are an extraordinarily large number of cotton products that come into this country. They need all to be converted into bales of cotton.

Additionally, a lot of goods that are cotton are not 100-percent cotton. They are blends. That makes it even more difficult. Finally, what is the price of cotton? I understand the Department of Agriculture has a theory of trying to come up with a price which is based on a moving average over the last year or so. Cotton is a highly fluctuating commodity. You really ought to only pay what the producer is getting that day.

Secondly, since it is the Customs Service that is going to enforce this statute, the Customs Service lives by TSUSA numbers and, at some point in the future, by the HS system. Neither the HS nor the TSUSA system provides for breakouts for blends. The systems contemplate merchandise which is either of chief weight or chief value cotton. They do not deal with a 30-percent cotton shirt, or a 60-percent cotton shirt, or a 90-percent cotton shirt. That information can be put on the import documentation but that is going to be a tremendous problem for Customs to manage. They have difficulty enough managing the import of textiles, what with the proliferation of TSUSA breakouts and the category system.

Finally, this is something that other people have mentioned, there are a number of issues that this bill does not address dealing with the export of American cotton which comes back as a finished garment. I could visualize where you could have triple taxation under the 807 program. Cotton leaves, comes back as piece goods, is exported, and comes back again as a finished garment. This example would result in three taxes. Under the Caribbean 807A program, you could have double taxation.

I have gone on long enough. I just want to close and tell you that I have 100-percent cotton, U.S.-made shirt on today, Mr. Chairman.

Thank you.

[The prepared statement and a letter subsequently received follow:]

STATEMENT OF THE TEXTILE AND APPAREL
GROUP OF THE AMERICAN ASSOCIATION OF EXPORTERS
AND IMPORTERS (AAEI-TAG)

I. INTRODUCTION

This statement is submitted on behalf of the Textile and Apparel Group of the American Association of Exporters and Importers (AAEI-TAG) in opposition to H.R. 1622, the Cotton Research and Promotion Act of 1987, and to any similar proposal to impose additional taxes on the cotton embodied in textile and apparel imports. AAEI-TAG is a group comprised of over 100 textile and apparel importers and retailers and related companies located throughout the United States. A list of AAEI-TAG members is attached.

H.R. 1622 would amend the Cotton Research and Promotion Act to authorize a mandatory fee to be imposed on domestically-produced upland cotton, imported upland cotton, and all imported products containing processed cotton. While the level of the fee is relatively small -- $1 per bale plus 0.6 percent of the value of the bale at its first point of sale -- H.R. 1622 is of concern to AAEI-TAG members because it would create additional administrative burdens for the U.S. Government and importers, would not benefit importers, and violate U.S. international obligations. In addition, H.R. 1622 ignores many U.S. importations, including imports under the 807 and super-807 programs, and could effectively result in double or even triple taxation. Also, the fee is disturbing because it appears to be a part of an increasing trend in the United States to resort to import surcharges to fund domestic spending programs. In fact, this time the fee is not even funding a government spending program but a private commercial promotional effort.

II. THE CALCULATION OF THE FEE ON IMPORTED TEXTILE AND APPAREL PRODUCTS WOULD PROVE TO BE AN ENORMOUS ADMINISTRATIVE BURDEN ON THE U.S. GOVERNMENT AND DISRUPTIVE TO TEXTILE AND APPAREL TRADE

The value of the fee proposed in H.R. 1622 depends on the calculation of the "cotton bale equivalent" of the imported product. Section 3 of H.R. 1622 directs U.S. Department of Agriculture (USDA) to determine the bale equivalent content of imported cotton products without any consideration of whether such an assessment is administratively feasible. In fact, it would prove to be an enormous and complicated task for the USDA to develop an accurate method of measuring and then administering the fee envisioned in H.R. 1622--or any other similar tax on the cotton contained in imported textile and apparel products--in a way that was not arbitrary or did not cause disruption to textile and apparel trade.

The House Agriculture Committee and National Cotton Council apparently believe that USDA has already developed a detailed "chart" which will enable Customs to calculate this conversion for every cotton textile and apparel product imported into the United States. While the existing USDA conversion "chart" is based on imports at the 7-digit Tariff Schedule level, even at this level of detail neither the Tariff Schedule nor the Harmonized System maintain separate classifications based on cotton content. To meet its

statistical needs, USDA consults periodically with the American Apparel Manufacturers Assn. to get the Association's opinion about the cotton content of U.S. textile and apparel imports generally and does not examine individual imports from individual countries. Use of USDA's current conversion methodology would be inadequate for the purpose of determining the required assessment.

To avoid arbitrary assessments and properly convert imported textile and apparel products of different cotton blends into cotton bale equivalents with any degree of accuracy or fairness to importers, the USDA would have to expand its conversions and increase the number of the 7-digit Tariff Schedule classifications in order to break out imports into a myriad of blends. All import documentation would need to specify this more detailed product classification.

The assessment of the fee would put a severe strain on limited U.S. Customs resources. The assessment in H.R. 1622 would require Customs inspectors at every U.S. port of entry to inspect every shipment, record the exact fiber composition of every import, and enter the data into a computer to determine the cotton bale equivalent of the import. An official of USDA, in fact, privately concedes that such a daily procedure "borders on the impossible." Under these strained circumstances the margin of error in the assessment of the fee would be enormous. Potential for misclassification would abound, requiring every product to be inspected for fabric content upon entry. Unavoidably, import processing could be expected to back up, delaying entry and creating havoc for importers and retailers alike.

III. H.R. 1622 WOULD BE INCONSISTENT WITH U.S. INTERNATIONAL OBLIGATIONS

The assessment would amount to an import surcharge in addition to existing tariffs on cotton textile and apparel imports and would therefore violate U.S. obligations under Articles II and VIII of the General Agreement on Tariffs and Trade (GATT). Moreover, the assessment would compound existing U.S. violations of Articles II and VIII as a result of the Customs user fees and port charges currently being imposed on U.S. imports.

The fee imposed under the bill also discriminate against U.S. cotton textile and apparel imports and therefore violates the national treatment provisions of Article III of the GATT. Section 2 of H.R. 1622 specifies that marketing efforts are to promote the use of cotton and cotton products generally, and not solely U.S.-produced cotton or cotton products. However, importers of textile and apparel products have no interest in promoting the expanded use of cotton products; they are concerned about meeting demand for textiles and apparel generally. Moreover, imposing a fee on imported cotton and cotton products to pay for domestic marketing efforts would be inequitable because those products are limited by quotas and therefore could not benefit from increases in domestic demand caused by promotion efforts. Importers would be forced to pay for a program from which they could not benefit.

H.R. 1622 is also highly discriminatory. Section 4 of the bill prevents U.S. importers from participating in the referendum used to determine whether or not to impose a mandatory assessment on cotton production and on imports of cotton products. The bill provides that only U.S. cotton

producers may participate in this referendum, or in any future referendum. If the referendum carries, all parties will be subject to the assessment and no party may receive a refund.

The additional fee on imports of cotton products is also inconsistent with the Multifiber Arrangement (MFA). Article 9 of the MFA requires participating countries to refrain as far as possible from taking actions restricting imports outside of those restraints under the MFA. This principle was reaffirmed in Paragraph 26 of the 1986 Protocol extending the Multifiber Arrangement which states that all parties should refrain from taking measures on textiles covered by the MFA before exhausting all the relief measures provided for under the MFA.

IV. H.R. 1622 LEAVES SEVERAL ISSUES UNADDRESSED

Section 3 of H.R. 1622 requires USDA to determine the value of the bale equivalents of imported cotton products but does not provide USDA with any guidance as to what cotton price to use to determine the value of the cotton. Congressman Huckaby's staff indicated that they believe that the value of the imported cotton would be whatever U.S. producers were receiving at the time of the import. Others have suggested a variety of methods USDA might determine the value of imported cotton bale equivalents: (1) a 12-month average of USDA's daily spot price; (2) a 12-month average of the world cotton price (also collected by USDA), and (3) a 12-month average of the "average price received by farmers," which is said to coincide most closely with what U.S. producers pay. Cotton prices vary daily, and even monthly averages can show considerable variation (see Table 1). Twelve-month averages would not reflect the frequently changing market conditions; a much shorter period would be necessary. As a result, Customs would be required to constantly change the basis for its assessments--an enormous administrative task highly subject to error.

In addition, H.R. 1622 makes no provision for how assessments are to be handled on raw cotton or semi-finished cotton products produced in the United States, exported, and then reimported as cotton-containing products or as finished cotton products under the 807 program. In its current form, H.R. 1622 could result in double or even triple assessments. For example, the House Agriculture Committee Report accompanying H.R. 1622[1/] notes that 20 percent of the 4 million bale equivalents of 1986 imported cotton products were made from U.S.-grown cotton. Because the bill makes no provision for rebates, almost 1 million bale equivalents of imported cotton products would be assessed twice under H.R. 1622. H.R. 1622 would require that foreign purchasers of U.S. cotton pay the promotion fee on the value of the raw cotton when purchased. After that cotton is converted into a textile or apparel product and re-exported to the United States, the importer would be assessed the promotion fee on cotton which has already been charged once in its raw form.

1/ Committee of Agriculture, U.S. House of Representatives, "Cotton Research and Promotion Program Act of 1987: Report," Oct. 5, 1987, at 5.

The confusion is compounded with textile and apparel products imported into the United States under the "super-807" program. If a textile product producer buys U.S. raw cotton, pays the assessment and exports that cotton in the form of a textile fabric, under H.R. 1622 the fabric would be again assessed the fee upon reentry to the United States as a finished apparel product. It is hard even to conceive of a rebate methodology that would not prove cumbersome and arbitrary for both the U.S. Government and for purchasers of cotton and importers of cotton-containing products.

Table 1

World and U.S. Cotton Prices in 1986/87
(Cents/lb.)

Month	Northern Europe[1/] A	Northern Europe[1/] B	United States[2/] Spot	United States[2/] Futures	Adjusted World
August	37.16	27.75	26.81	38.09	22.90
September	43.50	32.55	33.56	45.84	28.75
October	51.23	40.19	43.95	49.88	37.25
November	52.81	43.95	45.74	50.64	39.13
December	59.17	52.32	54.18	56.96	45.88
January	65.68	60.88	57.17	55.89	52.41
February	65.85	61.41	54.75	53.45	53.19
March	62.96	58.00	54.60	53.25	50.80
April	66.21	61.33	57.72	59.54	53.40
May	76.60	71.40	65.94	68.51	63.75
June	79.30	72.90	70.42	70.16	68.00
July	83.24	76.96	73.07	74.06	70.82

1/ A=Northern Europe price for Middling, 1-3/32 inch; B=Northern Europe Coarse count price. Monthly prices are averages of Thursday quotes. 2/ Spot and December futures for SLM, 1-1/16 inch at average U.S. producing location.

Source: USDA Economic Research Service, Cotton and Wool: Situation and Outlook Yearbook, CWS-49, Aug. 1987 at 9.

V. H.R. 1622 IS ANOTHER ATTEMPT TO TAX IMPORTS FOR DOMESTIC SPENDING PROGRAMS

The fee that would be mandated by H.R. 1622 is also disturbing because it appears to be part of a general trend in the United States toward greater use of import surcharges to fund spending programs. For example, last year the U.S. Government imposed a Customs user fee on all imports of 0.22 percent and a port user fee of 0.04 percent to fund the U.S. Customs Service, to maintain ports and to finance export promotion. The omnibus trade bill, H.R. 3, also contains a proposed import surcharge to fund trade adjustment assistance. The cotton promotion fee would be levied on top of these other user fees and port charges, which are assessed on imports of cotton textile and apparel products.

Proceeds of the cotton fee would be used to subsidize the costs of promoting cotton and cotton products, the primary beneficiary of which would be domestic cotton producers who already benefit from an enormous federal subsidy program. The Economist[2/] reports that the U.S. Government spent $987 million in FY86 subsidizing U.S. cotton -- an average subsidy of $195 a bale. H.R. 1622 and other excise and derivative tax proposals would add to this subsidy.

VI. Conclusion

For the foregoing reasons, the members of AAEI-TAG urge the Committee members to vote against H.R. 1622.

2/ "Cotton: Cushioned," The Economist, Oct. 24, 1987 at 40.

AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS
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TEXTILE
&
APPAREL
GROUP

November 20, 1987

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Rostenkowski:

At the November 17 Committee hearing on "The Cotton Research and Promotion Act of 1987" (H.R. 1622), Congressman Huckaby and Lloyd Cline of the National Cotton Council testified that promotion programs that assessed imports were in effect for pork and pork products, beef and beef products, and honey. The inference may be drawn that these programs are analogous to that proposed in H.R. 1622 for cotton and cotton products.

This is not the case. The beef, pork and honey programs are voluntary for both domestic producers and importers. Any producer or importer who does not wish to be assessed the promotion fee may request and receive a refund. H.R. 1622 would make the assessment mandatory on all cotton producers and cotton product importers. No refunds would be granted.

Also, the pork, honey and beef programs limit import assessments to a short list of tariff schedule items (13 for pork, 1 for honey, 26 for beef), thereby minimizing the administrative burden and cost to the Customs Service of collecting the assessment. H.R. 1622 would levy the promotion fee on all imported cotton-containing products -- over 3,000 items, as Representative Gibbons correctly pointed out at the hearing -- using product-specific formulas for calculating the cotton bale equivalent of each of these products.

AAEI-TAG appreciates the opportunity to testify before the Committee on H.R. 1622. We also thank you for the opportunity to explain that the pork, beef and honey promotion programs are quite different from H.R. 1622 and in fact do not serve as precedent. AAEI-TAG urges Committee members to vote against H.R. 1622.

Sincerely,

Frederick M. Joseph/lmb

Frederick M. Joseph
General Attorney
J.C. Penney Company, Inc.

Mr. GIBBONS. Mr. Pickle.

Mr. PICKLE. Mr. Chairman, I had hoped that I might have been here when this panel was introduced so that I might present to you my good friend, Joe Rankin, from Rawls, Texas, way up on the high plains. We have been good friends for many a year, and I know him to be one of the recognized agricultural leaders in our State. On any given subject that affects agriculture, Joe Rankin has been in the forefront, and he and his organization have made a very definite contribution.

I am sorry I did not get to hear the testimony, but I have looked over some of your remarks. And I had raised this question earlier, Mr. Rankin, and I raise it to you again now. As I understand it, you do not support the legislation in its present form. Now tell me what you would be for, what do you favor, or what would your organization think would be an equitable approach to this matter?

Mr. RANKIN. Mr. Pickle, we feel very strongly that we need to maintain the referendum with the two-thirds majority. We need to have the refund provision that is available to the cotton producers so that they can get a refund on it.

As I say, under the present situation, there can be some refinements, but basically the program is working. But to make it mandatory where a man cannot get any refund back——

Mr. PICKLE. If you kept it voluntary, as it is now, and you can apply for refund, would that be agreeable to you, even if the importer is also made voluntary?

Mr. RANKIN. Yes, it would.

Mr. PICKLE. In other words, keeping it—you would say, keep it either voluntary for both or mandatory for both, but not for one and not the other.

Mr. RANKIN. No, sir. In all fairness and to have control over it, I feel like that it is necessary that we maintain a refundable portion for the domestic cotton producer.

Mr. PICKLE. And whether we make that applicable to the importers would be another question as far as you are concerned.

Mr. RANKIN. Yes.

Mr. PICKLE. You understand, this committee can look at the bill that is proposed to us, which is a tax. And we are not in the authorization field. We cannot advance the plan or the program. All we can do is comment, are we for this tax or against this tax. And you are either for or against the bill, which would in effect make it mandatory for both.

So we would have to figure out what we could do about this aspect of it. We have got to make it one or the other.

Now a question I raise with you, the cotton companies or growers across the country want this measure, or apparently they have testified to that extent. But they think the democratic approach is to make it have a vote, a referendum. And if all the organizations approve it, then of course, the growers have had an expression on it. I can understand that.

And apparently, they want more money put into the fund so they can have a greater advertising program or a greater research program. I can understand that.

But if it was made applicable to both the importers and the domestic producers, then it seems to me like that would almost

double, or considerably increase your amount of money. Maybe that is the equity, to give you sufficient funds.

I can see your point, that if you make it mandatory, at least make them eligible to apply for a refund. And that is what you are trying to keep, the right for the domestic growers to ask for the refund if they so choose. That is essentially what you are asking for, is it?

Mr. RANKIN. Yes, that is correct.

Mr. PICKLE. All right. I thank you, Mr. Chairman.

Mr. RANKIN. In response to that, Mr. Chairman, going back to the figures, we had 31.7 percent one year asking for refunds, 35.7 percent in 1986. The rationale, as I understand it, they say they cannot do the imports without doing the domestic people the same way.

But now, that is the legal aspect of it. And it would constitute an occupational tax to us cotton producers if we impose that nonrefundable tax on it, and that is what we are opposed to.

Mr. GIBBONS. Thank you very much. It was very interesting and very informative.

This concludes the hearing on this subject. The record will stay open for a reasonable amount of time to allow the staff to pull it all together. If there are other written statements that people wish to submit we will receive them up through Friday, close of business on Friday.

Thank you very much.

[Whereupon, at 1:04 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE
Washington, D.C. 20230

02 DEC 1987

Honorable Samuel Gibbons
Chairman, Subcommittee on Trade
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Department of Commerce opposes enactment of H.R. 1622, which would require the collection of fees on imported cotton and cotton products. Our opposition is based upon the substantial General Agreement on Trade and Tariffs (GATT) questions, implications under the Multifiber Arrangement, and problems of implementation raised by the bill.

H.R. 1622 would amend the Cotton and Research Promotion Act to assess research and promotion fees on imports of cotton and cotton products. The assessment would be based upon a formula to be determined by the Secretary of Agriculture. Under current law, only domestic cotton producers are assessed based upon bales of cotton produced.

The current law states unequivocally that its purpose is to carry out "an effective and continuous coordinated program of research and promotion designed to strengthen cotton's competitive position and to maintain and expand domestic and foreign markets and uses for United States cotton." Given this statement of purpose, our trading partners may argue that the assessment on imported cotton products is discriminatory, offering these imported products no benefit, in violation of Article III of the GATT. Article III.4 provides that imported products:

> ". . . shall be accorded treatment no less favorable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution, or use."

That imported cotton and cotton products are subject to a comprehensive scheme of quotas also raises questions as to whether these goods could benefit from research and promotion activities to the extent domestic products can benefit. While the GATT does not explicitly require equal benefit from a program such as the cotton research and promotion program, the lack of a comparable benefit to importers may lead them to argue that the program violates the GATT.

A more serious GATT problem posed by H.R. 1622 is the fact that certain types of domestic cotton, primarily extra-long staple cotton, are not subject to the assessments that fund the cotton research and promotion program, whereas all categories of imported cotton would be subject to the assessments. Accordingly, the bill would provide more favorable treatment to domestic producers than to imports, which would probably be interpreted to violate the GATT.

We also are concerned about the implication H.R. 1622 could have on the Uruguay Round. Besides violating our standstill agreement, the introduction of a new fee could be viewed as contrary to our efforts to eliminate all trade barriers and subsidies for agricultural products.

The effect of H.R. 1622 on imported cotton products which are subject to quotas pursuant to the international Multifiber Arrangement (MFA) and bilateral textile agreements also must be considered. Under the terms of the July 31, 1986 Protocol extending the term of the MFA, changes in rules by a participating country "which have the effect of upsetting the balance of rights and obligations between the parties concerned or which affect the economic content of a bilateral agreement" may require the country "changing the rules" to compensate the affected country. An argument could be made by our trading partners that the research and promotion assessments increase the cost of their goods and thereby affect the "economic content" of their bilateral agreements.

The practical problems raised by the bill are several. Unlike the imports covered by existing assessment programs for other imported products, the quantity of cotton included in manufactured products containing cotton is not always readily identifiable. Nor would it be easy, if possible, for the U.S. Customs Service personnel to determine with certainty the amount of any U.S.-grown cotton incorporated in imported manufactured products. Considering the quantity of raw cotton exported by the United States, some imported manufactured products surely contain domestic cotton. The cotton in these goods would then be unfairly assessed twice.

We have been advised by the Office of Management and Budget that there is no objection to the submission of this letter from the standpoint of the Administration's program.

Sincerely,

Robert H. Brumley
Deputy General Counsel

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
TO THE HOUSE WAYS AND MEANS COMMITTEE
REGARDING H.R. 1622,
THE COTTON RESEARCH AND PROMOTION ACT OF 1987

Submitted by John Datt
Executive Director of the Washington Office

November 19, 1987

The American Farm Bureau Federation (AFBF) is the nation's largest general farm organization representing more than 3.5 million member families in 49 states and Puerto Rico. We appreciate the opportunity to submit comments regarding H.R. 1622, the Cotton Research and Promotion Act of 1987. We believe that this legislation is important to our cotton producing members. Moreover, the implications of the issues encompassed in consideration of this legislation extend to producers of many commodities that have, or may seek to establish, self-help producer funded research and promotion programs.

AFBF has a record of support for the right of producers to promote increased research, sales and consumption of the commodities that they produce. Members of our organization have spent considerable time and effort reviewing and refining our policy pertaining to commodity promotion. Our policy is intended to ensure that such programs are developed and implemented as a result of widespread majority support of the affected producers and that producer control is maintained to the maximum extent practicable in the ongoing operation of these programs.

AFBF Policy 562 entitled Commodity Promotion states:

"We will support a national promotion program funded by producer assessments only if it contains enabling legislation providing for checkoff funds from individual producers which contain reasonable, yet workable, safeguards for producers. These safeguards should provide:

"(1) Referendum procedures for initiating a program which protects voting rights and encourages maximum participation by producers;

"(2) To ensure producer control over the program, there should be opportunity for refunds of assessments without undue difficulty. For programs that do not allow refunds, a periodic referendum to determine continuation or termination of the program should be held at intervals not to exceed five years or at any time upon a petition of at least 10 percent of the registered producers in the area covered by the program;

"(3) Producer control of the board administering the program; and

"(4) Limitations on the use of funds for promotion, market development and research only. Grower educational programs should be limited to project information and financial statements."

An additional clarification to point (2) above was adopted by the AFBF Board of Directors in August due to recent interest in the checkoff programs for cotton, beef and pork. Our clarification of point (2) now states: "For programs that do not allow refunds, there should be a referendum at intervals not to exceed five years. In addition there shall be a referendum at any time upon petition of at least 10 percent of the registered producers in the area covered by the program."

In addition to the structural requirements outlined above to protect producer control over the programs, AFBF policy on commodity promotion also states, "Imported commodities should be subject to promotional checkoffs on the same basis as domestic producers." The proposed extension of the assessment to imported products is clearly supported in this policy. AFBF further recognizes that if producers elect to expand the program to imports and be consistent with the intent of the General Agreement on Tariffs and Trade, a uniform assessment with no refunds is necessary.

AFBF supports the two principal elements of H.R. 1622 which would: (1) Extend the checkoff to imported products that have greatly benefited from the research and promotion activities of the Cotton Board; and, (2) Allow the cotton checkoff program to eliminate the opportunity for refunds to producers if agreed to by referendum. AFBF has clearly stated that it is concerned that when producer refunds are not available, producers affected by such programs must have additional means of exerting control over a program that is using growers' funds to carry out its purposes. For that reason AFBF policy has called for the requirement that referenda on continuation of the program be held periodically at intervals not to exceed five years.

Most of these policy concerns that AFBF has regarding the structure of commodity checkoff programs have been satisfied in the development of H.R. 1622. We appreciate the cooperation of Subcommittee Chairman Huckaby and the main proponent of the legislation, the National Cotton Council, for consideration of our position. Although H.R. 1622 does not legislatively require periodic referenda at five-year intervals, the report language does suggest that the Secretary "should consider conducting periodic referenda with an interval of approximately five years..." While AFBF supports the basic objective of H.R. 1622, we would prefer stronger assurance for periodic referenda on continuation of this proposed legislation. During further consideration of the proposal, AFBF will be seeking an amendment to the legislation that would require periodic referenda at least every five years.

AFBF would strongly oppose any effort to replace the current checkoff funding mechanism with the imposition of an equivalent excise tax on domestically produced and imported cotton and a derivative tax applied to cotton containing products. This approach would fundamentally transform the program from a producer funded self-help effort to a government controlled tax policy issue. Not only would producers lose the control that they currently have and that we seek to expand, but they would have no opportunity to participate in the policy process with respect to collection of funds for their program.

Commodity promotion programs have long been an important part of agricultural producers' efforts to promote their products. Growers of cotton and many other commodities have developed and funded programs to expand domestic and export markets, as well as fund research projects that they deem desirable for their industry. With substantial cuts in public research funding, such efforts will serve an increasingly important role in the marketing of our agricultural products. The excise tax alternative will undermine this commodity promotion concept not only for cotton but also for other checkoff programs. Such action would be opposed by the great majority of our cotton producing members and farmers in general.

Thank you for the opportunity to present these comments.

TONY COELHO
16TH DISTRICT, CALIFORNIA
MAJORITY WHIP

COMMITTEE ON AGRICULTURE

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

COMMITTEE ON HOUSE ADMINISTRATION

DEMOCRATIC STEERING AND POLICY COMMITTEE

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November 16, 1987

Honorable Dan Rostenkowski
Chairman, Ways and Means
1102 Longworth
Washington, D.C. 20515

NOV 17 1987

Dear Dan:

I understand that a hearing has been scheduled on November 17th in the Committee on Ways and Means to review the provisions of H.R. 1622, the Cotton Research and Promotion Act of 1987.

As you are aware, the House Agriculture Committee unanimously approved this provision earlier this year. The proposed legislation would amend the Cotton Research and Promotion Act of 1966, as amended in 1976, to authorize the Secretary to conduct a referendum to determine if a majority of cotton producers approve: eliminating the refund provision of the current assessment program; applying an assessment, equal to that for domestically produced cotton, on imported cotton products; and, authorize the Secretary to appoint importer representatives to the Cotton Board. This provision has received the strong endorsement of U.S. cotton producers.

Our cotton producers unanimously approved two previous referenda providing for a voluntary assessment program offering funding for a highly effective generic promotion program. The efforts of the industry have been beneficial to U.S. consumers as it has stimulated inter-fiber competition ensuring the consumer a wide range of products at competitive prices.

Mr. Chairman, domestic cotton producers have funded this program for nearly twenty years. Today, a major portion of the cotton products purchased by U.S. consumers are imported products. A USDA study suggests that 40% of the cotton purchased by U.S. consumers is in imported products. I believe it would be only appropriate to require importers to contribute to a generic promotion program which benefits them as well as our domestic producers. The legislation, as reported by the House Agriculture Committee, not only ensures the assessment rate is equal, but it also provides for importer representation on the Cotton Board which controls the program.

In conclusion, I would urge the Committee to act favorably on H.R. 1622 as reported by the Agriculture Committee. I would disagree with any alternative proposed which would eliminate the producer referendum and eliminate the industry's control of the program, and would therefore strongly discourage the Ways and Means Committee from consideration of an alternative proposal.

Thank you for your cooperation.

Sincerely,

TONY COELHO
MEMBER OF CONGRESS

LARRY COMBEST
19TH DISTRICT, TEXAS

COMMITTEE ON AGRICULTURE

COMMITTEE ON THE
DISTRICT OF COLUMBIA

COMMITTEE ON SMALL BUSINESS

Congress of the United States
House of Representatives

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November 16, 1987

The Honorable Dan Rostenkowski
Chairman, Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

It is my understanding that your Committee will hold a hearing Tuesday, November 17, regarding H.R. 1622, the Cotton Research and Promotion Act of 1987. I am writing to urge your support for this much needed and important legislation.

I can appreciate your concern with this legislation's impact on trade agreements with our established trading partners. On the other hand, the dramatic increase of imported cotton textile and apparel products as a share of the domestic market creates a real need for the proposed change.

The bill will accomplish two important objectives which make its acceptance essential. First, it corrects the existing inequity of domestic producers bearing the full cost of market and product development which benefits those imports they must compete against. Second, it enables the domestic cotton industry to retain control over funds generated by a research and promotion fee. I think it is also important to remember that the fee becomes non-refundable only if a majority of domestic producers approve it.

Cotton producer groups in my district and throughout the United States have endorsed this proposal as a viable, equitable correction in current cotton industry research and promotion policy. I request your careful consideration and ultimate approval of H.R. 1622.

Your efforts on behalf of the American cotton industry are appreciated.

Sincerely,

Larry Combest

LC/clw

WALTER DOSSETT, JR.
CHAIRMAN OF THE BOARD
WACO, TEXAS

W. C. GRIGGS, JR.
PRESIDENT
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MIKE McDONALD
TREASURER
LEVELLAND, TEXAS

Cotton Warehouse Association
of America

1150 CONNECTICUT AVENUE, N.W., SUITE 507 • WASHINGTON, D.C. 20036 • (202) 331-4337

December 1, 1987

The Honorable Dan Rostenkowski
Chairman
House Ways & Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

H.R. 1622, the Cotton Research and Promotion Act of 1987, is scheduled for markup by the Committee on Ways and Means December 2. The Cotton Warehouse Association of America, the national trade association representing cotton compressmen and warehousemen throughout the United States, strongly favors passage of this legislation.

This bill, approved unanimously by the House Agriculture Committee earlier this year, would amend the Cotton Research and Promotion Act of 1966 to authorize the Secretary of Agriculture to conduct a referendum to determine if a majority of producers approve (1) eliminating the refund provision of the current assessment program, (2) applying the assessment to the cotton content of imported cotton products, and (3) authorizing the Secretary to appoint importer representatives to the Cotton Board. This legislation has broad-based cotton industry support, including the cotton warehousing segment.

The current program is a highly effective one that has proven its worth over the past two decades. H.R. 1622 will make the industry's research and promotion program even more effective by spreading the program costs to all who benefit from it. Today, 40 percent of the cotton purchases by U.S. consumers is in the form of imported products. It is only fair that importers join with domestic producers in funding a program that has helped to expand markets for their products.

The Cotton Warehouse Association of America respectfully urges the Committee to act favorably on H.R. 1622.

Sincerely,

W.C. Griggs, Jr.

W.C. Griggs, Jr.
President

WCG/rmd

STATEMENT OF THE HONORABLE BILL EMERSON

BEFORE THE HOUSE WAYS AND MEANS COMMITTE REGARDING

THE COTTON RESEARCH AND PROMOTION ACT OF 1987

I would like to take this opportunity to express my strong support for H.R. 1622, The Cotton Research and Promotion Act of 1987 which is currently under consideration by the Committee.

The cotton industry over the past two decades has supported and financed an effective research program designed to increase consumer recognition of cotton products and to promote new product development. Although significant achievements have been realized as a result of the existing Cotton Research Act, cotton producers recognize the need for a more coordinated market expansion effort.

While cotton producers have continued to assess themselves to fund our current research and promotion program, imported cotton textile and apparel products have increased their share of U.S. net domestic consumption from less than 15 percent in 1973 to 41 percent in the first half of 1987. The legislation before the Committee is designed to correct the inequity in the current program by assessing the cotton content of imported products which have benefited from a promotion program funded entirely by domestic cotton producers.

The legislation as proposed is consistent with GATT requirements, and U.S. consumers would feel virtually no impact since the assessment on a 100 percent cotton shirt would be only about one-third of a cent. In addition, an expanded promotion program can be expected to reduce domestic farm program costs by increasing consumption of cotton products.

As the Committee continues its deliberations on this issue, I would ask for the Committee's favorable consideration of H.R. 1622. I would also request that possible efforts to impose an alternative excise or derivative tax be rejected in order keep the promotion program in the control of the cotton producer.

Thank you for your consideration of this important legislation. Your support for H.R. 1622 is appreciated.

STATEMENT BY REPRESENTATIVE FLIPPO

Mr. Chairman, I would like to express my support for the efforts of American cotton producers to expand and strengthen their self-funded program of research and promotion.

I commend our colleagues on the House Committee on Agriculture for the work they have done to assist growers in amending the already successful program. In my view, HR 1622 would make the program more equitable and would give cotton farmers a better opportunity to compete more effectively for markets. I urge my colleagues and this committee to join me in support of the measure before us today.

Cotton is one agricultural commodity that has enjoyed success in the marketplace recently. As a direct result of cotton's improved showing, its portion of federal farm program costs have dropped significantly. A major reason for cotton's improved position is the expansion in consumer demand resulting from the successful efforts of the market development program. Any activity which helps improve the agricultural economy while lowering government outlays deserves support.

The evidence I've seen shows the cotton growers' self-help research and promotion program is working. I understand that statistics are available which clearly point out cotton's improvement in the fiber market. But from firsthand experience, I've seen a lot more cotton products on the shelves in stores and in catalogs. It's obvious that this program is doing something right.

The bill we're considering today is designed to strengthen the research and promotion program by allowing all those who benefit from it to share in the cost of conducting the market development activities. The cotton producers in my district support this program and this bill very strongly. In fact, producers all over the country support this legislation. As a result, we in Congress should provide the mechanism to enable producers to continue helping themselves by strengthening their program, expanding markets for cotton products and improving profits in agriculture.

In closing, I want to compliment the cotton industry for its excellent work in strengthening cotton's competitive position. I also want to encourage cotton growers to continue their efforts to improve their self-help program. It has achieved solid results at no cost to the American taxpayer.

PLAINS COTTON GROWERS INC.
4510 Englewood Lubbock, Texas 79414 806/792-4904

November 17, 1987

Mr. Robert J. Leonard, Chief Counsel
Ways and Means Committee
1102 Longworth House Office Building
Washington DC 20515

Dear Sir:

It is the desire of this organization and its members, as expressed through a duly elected Board of Directors, that the cotton research and promotion bill (H.R. 1622) be considered by the Congress as earlier reported by the House Agriculture Committee.

Substituting for H.R. 1622 an excise tax on U.S. and imported cotton and cotton products, as proposed, would take the program outside the bounds of congressional intent when the Cotton Research and Promotion Act was passed in 1966. The research and promotion act was conceived as enabling legislation to permit producers a vote in a referendum on a producer-funded research and promotion program.

Authority was included for producers to either increase funding, decrease funding, or to withdraw all support in accord with their assessment of the program's value.

In keeping with the spirit of the original act, the provisions of H.R. 1622 would beccme effective only if approved by producers in a referendum. The proposed alternative would put the program's future funding in the hands of Congress.

The position of producers in this area is clear: We support legislation to let producers vote on removal of the refund option on our assessment as a means to secure a like assessment on the cotton content of textile imports. We cannot support the proposed alternative which would remove our refund option without producer consent.

We respectfully request that our view be given serious consideration.

Sincerely,

Donald A. Johnson
Executive Vice President

/j

C: Congressman Larry Combest
Congressman Charles Stenholm
Congressman Beau Boulter
Congressman Kika de la Garza

SUPPORTER OF COTTON INCORPORATED

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1240P EST 12:39 EST

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▶ REPRESENTATIVE DAN ROSTENKOWSKI RPT DLY WSH
CAPITOL ONE DC 20515

TEXAS CORN GROWERS ASSOCIATION REQUEST THAT HR1622 BE PASSED OUT OF THE WAYS AND MEANS WITHOUT AMENDMENTS, THIS IS MOST IMPORTANT TO ALL FARMERS.
CARL KING, PRESIDENT
TEXAS CORN GROWERS ASSOCIATION
218 EAST BEDFORD
DIMMITT TX 79027
218 EAST BEDFORD
DIMMITT TX 79027

12:39 EST

IPMPOMX WSH

WU 0248A (R6-79)

Statement of the Honorable
WILLIAM M. THOMAS
Member of Congress, 20th District California
November 17, 1987

Mr. Chairman, this statement will convey my support for H.R. 1622 and urge that this Committee pass the bill as soon as possible. This is not a tax or trade matter. Rather, H.R. 1622 would correct a fundamental inequity in the way cotton research and promotion activities are funded today.

For nearly twenty years, the U.S. cotton industry has conducted research and promotional campaigns promoting more efficient use of cotton and greater consumer acceptance of goods made from this natural fiber. The campaign has been very successful. Today, cotton's share of the U.S. textiles market is approximately 40%; had market trends from the 1960s continued in the absence of the industry's promotion campaign, cotton share would only be 24%.

Unfortunately, the current system does an injustice to domestic cotton producers. They pay a per bale assessment of $1.00 plus .6% of the bale's value when it is first sold in order to support the research and promotion program. This money comes out of the grower's pocket. The funds are used to advance public acceptance of cotton products and to do research that is freely available to the international cotton industry. Foreign producers, in contrast, get a free ride. They pay nothing into the system and yet cotton imports get the same benefits of the promotion program that U.S. cotton products receive.

The inequity is sizeable. Imported cotton products account for over 41% of all the cotton goods U.S. consumers buy. Nearly 80% of the cotton in those products is produced outside the U.S. The current system effectively forces our cotton growers to subsidize promotion activities for importers and foreign cotton producers.

H.R. 1622 would end this inequity by requiring cotton textile imports to bear an equitable fee to support Cotton Incorporated's programs. The fee would be set at a level equivalent to fees paid by U.S. growers. Importers would also be protected from overpayment. If they use U.S.-produced cotton to

manufacture their material, the fee on imports would take that into account.

The proposed fee would also benefit consumers because it would stimulate competition in textiles marketing here in the U.S. Members of Ways and Means should bear in mind that the original cotton promotion bill, the Cotton Research and Promotion Act that passed in 1966, was intended to help cotton fabrics compete against more expensive synthetic fibers. Insofar as the synthetic fiber industry already spends nearly $350 million a year on research and marketing efforts, increasing the funds available for cotton promotion should help keep textiles prices down while giving U.S. consumers more opportunities to chose among attractive products.

The fee on imports would be nominal at best. The National Cotton Council estimates that, at the current fee level, a 100% cotton shirt would bear a fee of one-third of a cent. That would hardly be a burden for importers or consumers. In fact, H.R. 1622 would benefit the public. By increasing the sales of cotton products, according to the Congressional Budget Office, the bill would reduce U.S. cotton program outlays by $18 million in the current and coming two fiscal years.

All the U.S. cotton industry seeks is the same kind of level playing field in funding promotion that Congress has already approved for beef, pork and other farm products. There is no need to create a special "tax" to support this program or to deny the industry control over the program by denying producers the ability to control cotton promotion through the use of referenda. The system works and all we need to do is address the problem of inequities in its funding.

H.R. 1622 should clearly be accepted by this Committee before the end of this session. The U.S. cotton industry has enough trouble in trying to create new products and promotional campaigns in order to successfully compete with synthetic fibers. American growers should not also have to absorb the cost of promoting foreign cotton products. The importers get 40% of today's U.S. market for cotton goods, and it is only equitable that they pay a fair share of the support for a program that has made so much of their success possible.

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